

Explanatory Statement

pursuant to Section 412 of the *Corporations Act 2001* (Cth)

30 October 2017

For the Creditors' Scheme of Arrangement between:

Slater & Gordon Limited

ACN 097 297 400

(defined as the "Scheme Company")

and the

Scheme Senior Lenders

(as defined in the Scheme)

This is an important document and requires your immediate attention. You should read this document in its entirety before deciding how to vote and, if necessary, consult your legal, investment, taxation or other financial adviser without delay.

IMPORTANT INFORMATION

Senior Lenders should read this Explanatory Statement in its entirety before making a decision whether or not to vote in favour of the Scheme.

1.1 Orders to convene Scheme Meeting

On 30 October 2017 the Court made orders under section 411(1) of the Corporations Act directing that a meeting of Senior Lenders be convened to vote upon the proposed Scheme. This Explanatory Statement has been provided to Senior Lenders in connection with the Scheme Meeting for the purpose of considering and, if thought fit, agreeing to the proposed Scheme between the Scheme Company and the Scheme Senior Lenders.

The Scheme Meeting will commence at:

9.00 am (Melbourne time) on Tuesday, 28 November 2017

at

the Marriott Hotel, Corner of Exhibition Street and Lonsdale Street, Melbourne, Victoria 3000.

For further information on the procedures for voting at the Scheme Meeting for Senior Lenders, refer to **Section 11** of this Explanatory Statement.

1.2 Prescribed information

Under section 412(1) of the Corporations Act and regulation 5.1.01 of the Corporations Regulations, this Explanatory Statement must contain certain information to assist the Senior Lenders in deciding whether or not to vote in favour of this proposed Scheme. The below table indicates where that information can be found in this Explanatory Statement.

Prescribed information	Section of this Explanatory Statement
An explanation of the effect of the proposed Scheme.	Section 7
The material interests of the Directors of the Scheme Company (including the effect of the Scheme on those interests).	Section 10.6
The expected dividend that would be paid to the Scheme Senior Lenders if the Scheme Company were wound up within 6 months after the First Court Date.	Section 9.4
The expected dividend that would be paid to Scheme Senior Lenders if the Scheme were put into effect as proposed.	Section 9.3
A certified copy of all financial statements to be lodged by the Scheme Company with ASIC.	Annexure E
A report on the affairs of the Scheme Company.	Annexure F

Prescribed information	Section of this Explanatory Statement
A list of names of all known Scheme Senior Lenders and the debts owed to those Scheme Senior Lenders.	Annexure G
The scale of charges that the Scheme Administrators propose to charge to implement the Scheme.	Annexure H
The criteria and the date for determining: - the participants in the Scheme; - the persons entitled to vote at the Scheme Meeting; and - the persons who will be bound by the Scheme.	Section 7.25 and Section 11.3

1.3 Responsibility statement

The Scheme Company has provided and is responsible for all information in this Explanatory Statement (other than the Independent Expert Information). The Scheme Company and its Directors, officers, employees and advisers expressly disclaim and do not assume any responsibility for the accuracy or completeness of the Independent Expert Information.

KPMG has prepared the Independent Expert's Report in relation to the Scheme Company contained in **Annexure D**, based in part on information provided by the Scheme Company. Except to the extent that the Scheme Company is responsible for the information it has provided to the Independent Expert for the purposes of the Independent Expert's Report (and the Scheme Company has assumed responsibility for that information), the Independent Expert takes responsibility for the Independent Expert Information.

The Independent Expert Information consists of the information in **Section 9** and the Independent Expert's Report in **Annexure D** to this Explanatory Statement.

None of the Security Trustees, Senior Agents, the Note Trustee (UK) or any Senior Lender assume any responsibility for the accuracy or completeness of any information in this Explanatory Statement.

This Explanatory Statement is prepared solely for use by Senior Lenders for the purpose of evaluating whether or not to vote in favour of the Scheme. No other persons apart from those named in this responsibility statement have been authorised to make any representation or warranty, express or implied, as to its accuracy or completeness. Nothing contained in this Explanatory Statement is, or should be relied upon as, a representation, assurance or guarantee as to the benefits of the Scheme over any alternative for Senior Lenders.

1.4 Date of Explanatory Statement

The date of this Explanatory Statement is 30 October 2017.

1.5 Professional advice

This Explanatory Statement does not constitute financial product advice and has been prepared without reference to the investment objectives, financial situation, taxation position or particular needs of any Senior Lender. Senior Lenders should not construe any statements made in this Explanatory Statement as investment, tax or legal advice.

Each Senior Lender's decision whether to vote for or against the Scheme will depend on an assessment of the Senior Lender's individual circumstances. As the financial, legal and taxation consequences of that decision may be different for each Senior Lender, it is recommended that Senior Lenders seek professional financial, legal and taxation advice before making their decision.

1.6 Forward-looking statements

Certain statements in this Explanatory Statement relate to the future. The forward-looking statements and information, including the statements and information relating to the Scheme Company and the transactions contemplated by the Scheme, are not based solely on historical facts, but rather reflect the expectations of the Scheme Company as at the date of this Explanatory Statement. These statements may sometimes be identified by the use of forward looking words or phrases such as *believe, aim, expect, anticipate, contemplate, intend, foresee, likely, plan, may, estimate, should, potential* or similar words or phrases. Similarly, statements that describe the Scheme Company's objectives, plans, goals or expectations are or may be forward looking statements.

Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual outcomes to be materially different from future outcomes expressed or implied by such statements. Such statements and information are based on numerous assumptions regarding present and future circumstances. Certain important factors could cause actual outcomes to differ materially from those in the forward looking statements including litigation risks, regulatory restrictions, activities by governmental authorities (including changes in taxation), currency fluctuations, the global economic climate, dilution, competition, loss of key employees and additional funding requirements.

Given this, Senior Lenders are cautioned not to rely on such forward looking statements.

1.7 Senior Lender acknowledgements regarding information

A copy of this Explanatory Statement and any related amendments or supplements to it will be provided to each type of person identified in **Section 2.1** of this Explanatory Statement as a person entitled to vote at the Scheme Meeting. No person has been authorised to give any information or to make any representation in connection with the Scheme other than the information and representations contained in this Explanatory Statement.

1.8 ASIC and ASX

A copy of this Explanatory Statement has been given to ASIC for the purposes of section 412(7) of the Corporations Act. A copy of this Explanatory Statement has also been lodged with ASX. Neither ASIC, ASX nor any of their officers take any responsibility for the contents of this Explanatory Statement.

1.9 Rounding

A number of figures, amounts, percentages, estimates, calculations of values and fractions in this Explanatory Statement are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out.

1.10 Defined terms

Capitalised terms used in this Explanatory Statement have the meaning contained in the dictionary at **Section 12**, unless the context otherwise requires or a term has been defined in the text of the Explanatory Statement. Some of the annexures to this Explanatory Statement contain their own defined terms and should be read accordingly.

Section 12.2 and **Section 12.3** contain general guidelines for interpreting this Explanatory Statement.

1.11 Privacy

The Chairperson, the Scheme Administrators and the Scheme Company may collect, use and disclose personal information in the process of implementing the Scheme. This information may include the names, contact details and bank account details of Senior Lenders, and the contact details of persons appointed by Senior Lenders to act as proxy, corporate representative or attorney at the Scheme Meeting. The primary purpose of collecting this information is to assist the Chairperson, the Scheme Administrators and the Scheme Company in the conduct of the Scheme Meeting and to enable the Scheme to be implemented by the Scheme Administrators in the manner described in this Explanatory Statement. Personal information may be disclosed to the Chairperson, Scheme Administrators, the Scheme Company, third party service providers, professional advisors, ASIC, FIRB and other regulatory authorities and, in addition, where disclosure is required by law or where a Senior Lender has consented to the disclosure. Senior Lenders have the right to access personal information that has been collected about them. Senior Lenders should contact the Scheme Company in the first instance if they wish to exercise this right.

The main consequence of not collecting such information would be that the Chairperson, the Scheme Administrators and the Scheme Company may be hindered in, or prevented from, conducting the Scheme Meeting and implementing the Scheme.

Senior Lenders appointing a proxy, corporate representative or attorney should ensure that these matters are communicated to that person.

1.12 Senior Lenders outside Australia

This Explanatory Statement has been prepared to reflect the applicable disclosure requirements of Australia, which may be different from the applicable requirements in other jurisdictions. The financial information included in this document is based on financial statements that have been prepared in accordance with accounting principles and practices generally accepted in Australia, which may differ from generally accepted accounting principles and practices in other jurisdictions.

The implications of the Scheme for Senior Lenders who are resident in, have a registered address in or are citizens of and/or are taxable in jurisdictions other than Australia may be affected by the laws of the relevant jurisdiction. Such overseas Senior Lenders should inform themselves about, and observe, any applicable legal requirements. Any person outside Australia who is resident in, who has a registered address in, or is a citizen of and/or is taxable in, an overseas jurisdiction and who is to receive any Scheme Securities should consult their professional advisers and satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection with the Scheme, including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such jurisdiction.

1.13 Foreign jurisdiction disclaimers

This Explanatory Statement and the Scheme do not constitute an offer of securities in any jurisdiction in which it would be unlawful. In particular, this Explanatory Statement and the Scheme may not be distributed to any person, and the Scheme Securities may not be offered or sold, in any country outside Australia except to the extent provided below.

Hong Kong

WARNING: The contents of this document have not been reviewed or approved by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

This document does not constitute an offer or invitation to the public in Hong Kong to acquire or subscribe for or dispose of any securities. This document also does not

constitute a prospectus (as defined in section 2(1) of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)) or notice, circular, brochure or advertisement offering any securities to the public for subscription or purchase or calculated to invite such offers by the public to subscribe for or purchase any securities, nor is it an advertisement, invitation or document which is or contains an invitation falling within the meaning of section 103 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Accordingly, unless permitted by the securities laws of Hong Kong, no person may issue or cause to be issued this document in Hong Kong, other than to persons who are "professional investors" as defined in the Securities and Futures Ordinance and any rules made thereunder or in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance or which do not constitute an offer to the public within the meaning of the Companies Ordinance, and no person may issue or have in its possession for the purposes of issue, this document or any advertisement, invitation or document relating to the Scheme, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than any such advertisement, invitation or document relating to the Scheme that are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made thereunder.

Copies of this document may be issued to a limited number of persons in Hong Kong in a manner which does not constitute any issue, circulation or distribution of this document, or any offer or an invitation in respect of these securities, to the public in Hong Kong. This document is for the exclusive use of the Senior Lenders in connection with the Scheme, and no steps have been taken to register or seek authorisation for the issue of this document in Hong Kong. Only the person to whom a copy of this document has been issued may take action in response to this document. The offer of the Scheme is personal to the person to whom this document has been delivered, and an acquisition or subscription for Scheme Securities will only be accepted from such person.

This document is confidential to the person to whom it is addressed and no person to whom a copy of this document is issued may issue, circulate, distribute, publish, reproduce or disclose (in whole or in part) this document to any other person in Hong Kong or use this document for any purpose in Hong Kong other than in connection with the consideration of the Scheme by the person to whom this document is addressed.

Ireland

This document does not constitute a prospectus under any Irish laws or regulations and this document has not been filed with or approved by any Irish regulatory authority as the information has not been prepared in the context of a public offering of securities in Ireland within the meaning of the Irish Prospectus (Directive 2003/71/EC) Regulations 2005, as amended (the **Prospectus Regulations**).

The Scheme Securities have not been offered or sold, and will not be offered, sold or delivered directly or indirectly in Ireland by way of a public offering, except to (i) "qualified investors" as defined in Regulation 2(l) of the Prospectus Regulations and (ii) fewer than 150 natural or legal persons who are not qualified investors.

Singapore

This document and any other material in connection with the offer, sale or distribution, or invitation for subscription, purchase or receipt of Scheme Securities have not been and will not be registered as a prospectus with the Monetary Authority of Singapore and this offering is not regulated by any financial supervisory authority pursuant to any legislation in Singapore. Accordingly, statutory liabilities in connection with the contents of prospectuses under the Securities and Futures Act, Cap. 289 (the **SFA**) will not apply.

This document and any other material in connection with the offer, sale or distribution, or invitation for subscription, purchase or receipt of Scheme Securities may not be offered, sold or distributed, or be made the subject of an invitation for subscription, purchase or receipt, whether directly or indirectly, to persons in Singapore except pursuant to exemptions in Subdivision (4) Division 1, Part XIII of the SFA, including the exemption under section 273(1)(c) of the SFA, or otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

Any offer is not made to you with a view to Scheme Securities being subsequently offered for sale to any other party. You are advised to acquaint yourself with the SFA provisions relating to on-sale restrictions in Singapore and comply accordingly.

Neither this document nor any copy of it may be taken or transmitted into any country where the distribution or dissemination is prohibited. This document is being furnished to you on a confidential basis and solely for your information and may not be reproduced, disclosed, or distributed to any other person.

The investments contained or referred to in this document may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you.

The Scheme Company is not in the business of dealing in securities nor hold itself out or purport to hold itself out to be doing so. As such, the Scheme Company is neither licensed nor exempted from dealing in securities or carrying out any other regulated activities under the SFA or any other applicable legislation in Singapore.

United Kingdom

Neither the information in this Explanatory Statement nor any other document relating to the Scheme has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended (**FSMA**)) has been published or is intended to be published in respect of any of the Scheme Securities. This document is issued on a confidential basis to "qualified investors" (within the meaning of section 86(7) of the FSMA) in the United Kingdom, and the Scheme Securities may not be offered or sold in the United Kingdom by means of this document, any accompanying letter or any other document, except in circumstances which do not require the publication of a prospectus pursuant to section 86(1) of the FSMA. This document should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received in connection with the issue or sale of any of the Scheme Securities has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of the FSMA does not apply to the Scheme Company, UK HoldCo or S&G UK.

In the United Kingdom, this document is being distributed only to, and is directed at, persons:

- (a) within the definition of "Investment Professionals" (as defined in Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (**FPO**);
- (b) falling within Article 43 of the FPO; or
- (c) to whom it may otherwise be lawfully communicated (together **relevant persons**).

The Scheme Securities to which this document relates are available only to the Scheme Senior Lenders, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

United States

General

The issuance of the Scheme Securities in connection with the Scheme have not been, and will not be, registered under the United States Securities Act of 1933, as amended (**US Securities Act**) or the US Securities Exchange Act of 1934, or under the securities law of any state, district or other jurisdiction of the United States, and the Scheme Securities will not be subject to the reporting requirements applicable thereunder. The Scheme Securities may not be offered, sold, or delivered, directly or indirectly, in, into or from the United States absent registration of such transaction under the US Securities Act or an exemption from registration.

The Scheme Securities have not been and will not be listed on a US securities exchange or quoted on any inter-dealer quotation system in the United States. The Scheme Company, UK HoldCo or S&G UK do not intend to take any action to facilitate a market in any Scheme Securities in the United States. Consequently, the Scheme Company, UK HoldCo and S&G UK believe that it is unlikely that an active trading market in the United States will develop for any Scheme Securities.

Neither the US Securities and Exchange Commission nor any other US federal or state securities commission or regulatory authority has approved or disapproved the issuance of Scheme Securities, or the offering and sale thereof, or passed upon the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

Each Scheme Senior Lender agrees and acknowledges that it has conducted its own investigation with respect to the Scheme Company, UK HoldCo, S&G UK, and the Scheme Securities and has reviewed all information, including this document, that it believes is necessary or appropriate, including the terms, contents and effects of this section.

Each Scheme Senior Lender acknowledges the terms, contents and effects of this section, and should consult their own legal, financial and tax advisers with respect to the legal, financial and tax consequences of the Scheme in their particular circumstances, the actions Scheme Senior Lenders should take in relation to the Scheme, and the implications or consequences of those actions.

The Scheme Securities delivered under or in connection with the Scheme will be issued and delivered in reliance upon exemptions from the registration requirements of the US Securities Act. The Scheme Securities will be offered and delivered solely to persons within the United States or to US Persons, in each case where each such person is an institutional “accredited investor” within the meaning of clauses (1), (2), (3), (7) or (8) of clause (a) of Rule 501 of Regulation D under the US Securities Act (**Regulation D**) in reliance on Rule 506(c) of Regulation D. Outside the United States, the Scheme Securities will be offered and delivered solely to non-US Persons in offshore transactions in reliance on Regulation S under the US Securities Act (**Regulation S**).

Upon issuance, the Scheme Securities will be “restricted securities” (as defined by Rule 144(a)(3) under the US Securities Act) and may not be offered, sold, pledged or otherwise transferred, except (a) pursuant to an effective registration statement under the US Securities Act, provided that such transfer is registered pursuant to, exempt from or not subject to restrictions under any other applicable securities laws covering such securities; (b) in accordance with Rule 144A, if available, under the US Securities Act to a person that the transferor, and any person acting on its behalf, reasonably believes is a QIB purchasing for its own account; (c) in accordance with Rule 144 (**Rule 144**) under the US Securities Act, provided that the Scheme Company, UK HoldCo or S&G UK, as

applicable, receives evidence satisfactory to it that the provisions of Rule 144 have been complied with; (d) in an offshore transaction in accordance with Regulation S; (e) to the applicable issuer or its Subsidiaries; or (f) pursuant to any other available exemption from the registration requirements of the US Securities Act, in each case in accordance with any applicable securities laws of any state of the United States, for an offer and sale by the applicable issuer, as applicable, not involving a public offering in the United States.

In connection with the issuance of the Scheme Securities pursuant to the Scheme, the Proxy Form will require Scheme Senior Lenders to confirm, amongst other things, that they are a person eligible to receive Scheme Securities under the US Securities Act, and will require Scheme Senior Lenders to agree in writing to certain representations and warranties, and those written confirmations will be included in the Proxy Form. If the confirmations required by the Proxy Form cannot be or are not given, the Scheme Senior Lender will not be eligible to receive their Scheme Securities and will be treated as a Disqualified Person for this purpose.

(a) Private Placement Scheme Securities

Each Scheme Senior Lender who is located in the United States or who is (or is acting for the account or benefit of) a US Person, prior to accepting delivery of Scheme Securities (the **Private Placement Scheme Securities**) will be required to represent and warrant to the Scheme Company, UK HoldCo and S&G UK, on behalf of itself and each other person or account for which it is acting that:

- i. It has complied in all material respects with all laws and regulations applicable to it in any jurisdiction with respect to the Scheme and the Proxy Form.
- ii. It will accept the Private Placement Scheme Securities on the terms set out in the Scheme, and it agrees to be irrevocably and unconditionally bound by the Scheme.
- iii. It is not a Disqualified Person.
- iv. It understands that the Private Placement Scheme Securities are being issued in reliance upon an exemption from registration under the US Securities Act and similar provisions under state securities laws for an offer and sale by the Scheme Company, UK HoldCo and S&G UK, as applicable, not involving a public offering.
- v. It understands that the issuance of Private Placement Scheme Securities has not been and will not be registered under the US Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States.
- vi. It understands that, as a purchaser of the Private Placement Scheme Securities in a private placement not registered under the US Securities Act, it is receiving Private Placement Scheme Securities for its own account, or for an account as to which it exercises sole investment discretion, for investment purposes and (subject, to the extent necessary, to the disposition of its or such discretionary accounts' property being at all times within its or their control) not with a view to any distribution or resale, directly or indirectly, in the United States or otherwise in violation of the securities laws of the United States.
- vii. (1) It understands that the Private Placement Scheme Securities are "restricted securities" (as defined by Rule 144 under the US Securities Act), and, as long as the Private Placement Scheme Securities are restricted securities, may not be offered, sold, pledged or otherwise transferred, except (a) in accordance with Rule 144A to a person that it, and any person acting on its behalf, reasonably believes is a QIB purchasing for its own account or for the account of one or more QIBs, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, (c) pursuant to an exemption from, or in a transaction not subject to, registration under the US Securities Act provided by Rule 144 thereunder (if available), or (d) pursuant to any other available exemption from the registration requirements of the US Securities Act, and in each case, in accordance with any applicable securities laws of any state of the United States, and (2) it will, and each subsequent holder of

the Private Placement Scheme Securities is required to, notify any purchaser of the Private Placement Scheme Securities from it of the resale restrictions on the Private Placement Scheme Securities.

- viii. It understands that the Scheme Company, UK HoldCo and S&G UK and their respective agents shall not be obliged to recognise any resale or other transfer of the Private Placement Scheme Securities made other than in compliance with U.S. securities laws and the constitutional documents constituting the Scheme Securities.
- ix. It understands that the Private Placement Scheme Securities will bear a legend (the **Private Placement Legend**) in or substantially in the following form:

“THIS SECURITY HAS BEEN ISSUED IN A TRANSACTION THAT HAS NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR FOR WHICH IT HAS PURCHASED SECURITIES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE RESALE RESTRICTION TERMINATION DATE, WHICH IS ONE YEAR AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF THIS SECURITY), ONLY (A) TO THE ISSUER OR ANY SUBSIDIARY THEREOF, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT (**RULE 144A**), TO A PERSON IT REASONABLY BELIEVES IS A “QUALIFIED INSTITUTIONAL BUYER” AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATIONS UNDER THE SECURITIES ACT, OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT IN EACH OF THE FOREGOING CASES TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF ITS PROPERTY OR THE PROPERTY OF SUCH INVESTOR ACCOUNT OR ACCOUNTS BE AT ALL TIMES WITHIN ITS OR THEIR CONTROL AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS, AND ANY APPLICABLE LOCAL LAWS AND REGULATIONS AND FURTHER SUBJECT TO THE ISSUER’S AND THE TRUSTEE’S RIGHTS PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSES (D) OR (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM.”

- x. It will notify any person to whom it subsequently re-offers, resells, pledges, transfers or otherwise disposes of the Private Placement Scheme Securities of the foregoing restrictions on transfer and any certificates evidencing such securities shall contain a legend referring to such restrictions on transferability.

- xi. It is an institutional “accredited investor” within the meaning of clauses (1), (2), (3), (7) or (8) of clause (a) of Rule 501 of Regulation D and in reliance on Rule 506(c) of Regulation D and its receipt of the Private Placement Scheme Securities is not part of a plan or scheme to evade the registration requirements of the US Securities Act.
- xii. It is not acquiring its Private Placement Scheme Securities with a view to distribution thereof or with any present intention of offering or selling any of its Private Placement Scheme Securities, except as permitted above, provided that the disposition of its property and property of any accounts for which it is acting as fiduciary will remain at all times within its control.
- xiii. It: (a) has conducted its own investigation with respect to Scheme Company, UK HoldCo, S&G UK and the Private Placement Scheme Securities; (b) has reviewed all information, including the disclosure document(s) that it believes is necessary or appropriate in connection with its election to receive the Private Placement Scheme Securities; (c) has made its own assessment and has satisfied itself concerning the relevant tax, legal, currency and other economic considerations relevant to its investment in the Private Placement Scheme Securities; and (d) possesses such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of its prospective investment in the Private Placement Scheme Securities.
- xiv. It (and each other person, if any, for whose account it is receiving the Private Placement Scheme Securities), in the normal course of business, invests in or purchases securities similar to the Private Placement Scheme Securities and has the ability to bear the economic risk of its investment in the Private Placement Scheme Securities, has adequate means of providing for its current and contingent needs, has no need for liquidity with respect to its investment in the Private Placement Scheme Securities, and is able to sustain a complete loss of its investment in the Private Placement Scheme Securities.
- xv. It satisfies any and all standards for investors making an investment in the Private Placement Scheme Securities imposed by the jurisdiction of its residence or otherwise.
- xvi. It is empowered, authorised and qualified to receive the Private Placement Scheme Securities.
- xvii. It will comply with all securities laws of any US state or any other applicable jurisdiction including, without limitation, “blue sky” laws, and acceptance of its Private Placement Scheme Securities will not violate any applicable law.
- xviii. It understands that the disclosure document(s) has been prepared in accordance with the relevant disclosure requirements, format and style, which differ from those in the US.
- xix. It understands that the foregoing representations, warranties and agreements are required in connection with US securities laws and that the Scheme Company, UK HoldCo, S&G UK and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. It agrees that, if any of the acknowledgements, representations and warranties made in connection with its receipt of the Private Placement Scheme Securities are no longer accurate, it will promptly, and in any event prior to the issuance of the Private Placement Scheme Securities to it, notify the Scheme Company, UK HoldCo or S&G UK, as applicable, in writing.
- xx. In the event it is receiving the Private Placement Scheme Securities for the account of one or more persons, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power and authorisation to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

- xxi. It has had access to such financial and other information concerning the Scheme Company, UK HoldCo, S&G UK and the Private Placement Scheme Securities, including an opportunity to ask questions of, and request information from, the Scheme Company, UK HoldCo and S&G UK.
- xxii. It acknowledges that the Scheme Company, UK HoldCo and S&G UK, as the issuers of the Private Placement Scheme Securities, would be unable to rely on the exemption from the registration requirements under the Securities Act provided by Rule 506(c) of Regulation D (the **Exemption**) if any person that beneficially owns 20% or more of its outstanding voting equity securities or any promotor for the Scheme Company, UK HoldCo and S&G UK has experienced a “Bad Actor” disqualification event (each such event, a **Disqualifying Event**) as listed in Rule 506(d)(1) of Regulation D. In the event that it (together with its affiliates and related funds or accounts) beneficially owns 20% or more of the outstanding voting equity securities of the Scheme Company, UK HoldCo or S&G UK or is a promotor for the Scheme Company, UK HoldCo or S&G UK, it represents and warrants that neither it nor any of its directors, general partners, managing members, executive officers, nor any other person affiliated with it, whose experience of a Disqualifying Event may prevent the Scheme Company, UK HoldCo and S&G UK, as applicable, from relying on the Exemption with respect to the offer and sale of the Private Placement Scheme Securities (each such person, a **Relevant Person**), has experienced a Disqualifying Event. It hereby undertakes to promptly notify the Scheme Company, UK HoldCo and S&G UK, as applicable, if it or any of the Relevant Persons experiences a Disqualifying Event or it becomes aware that any of the representations and warranties given in this paragraph proves to be untrue or incorrect, in whole or in part.

(b) Regulation S Scheme Securities

Each Scheme Senior Lender that intends to receive Scheme Securities who is located outside the United States and who is not (and is not acting for the account or benefit of) a US Person, prior to accepting delivery of Scheme Securities (the **Regulation S Scheme Securities**) will be required to represent and warrant to the Scheme Company, UK HoldCo and S&G UK, on behalf of itself and each other person or account for which it is acting that:

- i. It has complied in all material respects with all laws and regulations applicable to it in any jurisdiction with respect to the Scheme and the Proxy Form.
- ii. It will accept the Regulation S Scheme Securities on the terms set out in the Scheme, and it agrees to be irrevocably and unconditionally bound by the Scheme.
- iii. It is not a Disqualified Person.
- iv. It is not a US Person and it is located outside the United States (within the meaning of Regulation S) and it is not an affiliate of the Scheme Company, UK HoldCo or S&G UK or a person acting on behalf of such an affiliate.
- v. It understands that the issuance of such Regulation S Scheme Securities have not been and will not be registered under the US Securities Act and that it will not offer, sell, pledge or otherwise transfer such Regulation S Scheme Securities except pursuant to an exemption from registration under the US Securities Act and in accordance with any applicable securities laws of any State of the United States.
- vi. It understands that, as a purchaser of the Regulation S Scheme Securities in a transaction not registered under the US Securities Act, it is receiving Regulation S Scheme Securities for its own account, or for an account as to which it exercises sole investment discretion, for investment purposes and (subject, to the extent necessary, to the disposition of its or such discretionary accounts' property being at all times within its or their control) not with a view to any distribution or resale,

directly or indirectly, in the United States or otherwise in violation of the securities laws of the United States.

- vii. It understands that the Regulation S Scheme Securities will bear a legend (the **Regulation S Legend**) in or substantially in the following form:

“THIS SECURITY HAS BEEN ISSUED IN A TRANSACTION THAT HAS NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR FOR WHICH IT HAS PURCHASED SECURITIES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE RESALE RESTRICTION TERMINATION DATE, WHICH IS 40 DAYS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE DATE ON WHICH THIS SECURITY WAS FIRST OFFERED TO PERSONS OTHER THAN DISTRIBUTORS (AS DEFINED IN RULE 902 OF THE REGULATION S), ONLY (A) TO THE ISSUER OR ITS SUBSIDIARIES, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT (**RULE 144A**), TO A PERSON IT REASONABLY BELIEVES IS A “QUALIFIED INSTITUTIONAL BUYER” AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT, OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT IN EACH OF THE FOREGOING CASES TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF ITS PROPERTY OR THE PROPERTY OF SUCH INVESTOR ACCOUNT OR ACCOUNTS BE AT ALL TIMES WITHIN ITS OR THEIR CONTROL AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS, AND ANY APPLICABLE LOCAL LAWS AND REGULATIONS AND FURTHER SUBJECT TO THE ISSUER’S AND THE TRUSTEE’S RIGHTS PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSES (D) OR (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM.”

- viii. It will notify any person to whom it subsequently re-offers, resells, pledges, transfers or otherwise disposes of the Regulation S Scheme Securities of the foregoing restrictions on transfer and any certificates evidencing such securities shall contain a legend referring to such restrictions on transferability.
- ix. It (a) has conducted its own investigation with respect to the Scheme Company, UK HoldCo, S&G UK and the Regulation S Scheme Securities; (b) has reviewed all information, including the disclosure document(s) that it believes is necessary or appropriate in connection with its election to receive the Regulation S Scheme Securities; (c) has made its own assessment and has satisfied itself concerning the relevant tax, legal, currency and other economic considerations relevant to its investment in the Regulation S Scheme Securities; and (d) possesses such

knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of its prospective investment in the Regulation S Scheme Securities.

- x. It (and each other person, if any, for whose account it is receiving the Regulation S Scheme Securities), in the normal course of business, invests in or purchases securities similar to the Regulation S Scheme Securities and has the ability to bear the economic risk of its investment in the Regulation S Scheme Securities, has adequate means of providing for its current and contingent needs, has no need for liquidity with respect to its investment in the Regulation S Scheme Securities, and is able to sustain a complete loss of its investment in the Regulation S Scheme Securities.
- xi. It satisfies any and all standards for investors making an investment in the Regulation S Scheme Securities imposed by the jurisdiction of its residence or otherwise.
- xii. It is empowered, authorised and qualified to receive the Regulation S Scheme Securities.
- xiii. It will comply with all securities laws of any applicable jurisdiction, and acceptance of its Regulation S Scheme Securities will not violate any applicable law.
- xiv. In the event it is receiving any Regulation S Scheme Securities for the account of one or more persons, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.
- xv. It understands that the foregoing representations, warranties and agreements are required in connection with the US securities laws and that the Scheme Company, UK HoldCo, S&G UK and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. It agrees that, if any of the acknowledgements, representations and warranties made in connection with its receipt of the Regulation S Scheme Securities are no longer accurate, it will promptly, and in any event prior to the issuance of the Regulation S Scheme Securities to it, notify the Scheme Company, UK HoldCo or S&G UK, as applicable, in writing.
- xvi. It understands that the Scheme Company, UK HoldCo and S&G UK and their respective agents shall not be obliged to recognise any resale or other transfer of the Regulation S Scheme Securities made other than in compliance with U.S. securities laws and the constitutional documents constituting the Scheme Securities.
- xvii. It is not acquiring any Regulation S Scheme Securities with a view to distribution thereof or with any present intention of offering or selling any of its Regulation S Scheme Securities, except as permitted above, provided that the disposition of its property and property of any accounts for which it is acting as fiduciary will remain at all times within its control.
- xviii. It acknowledges that none of the Scheme Company, UK HoldCo, S&G UK or any other person has made or will make any representation as to the availability of exemptions for resales under US securities laws of the Regulation S Scheme Securities.
- xix. It has had access to such financial and other information concerning the Scheme Company, UK HoldCo, S&G UK and the Regulation S Scheme Securities, including an opportunity to ask questions of, and request information from, the Scheme Company, UK HoldCo and S&G UK.

(c) Disqualified Persons

Without limiting the information set out in this section of this Explanatory Statement, the Scheme Securities will not be issued to a Scheme Senior Lender pursuant to or in connection with the Scheme where such Scheme Senior Lender is a Disqualified Person.

1.14 Documents available for inspection

Documents referred to in this Explanatory Statement that are not reproduced in the annexures of this Explanatory Statement or have not otherwise been provided to Senior Lenders, will be made available for inspection to Senior Lenders on written request to the Scheme Company.

To request a copy of such a document Senior Lenders should contact the Company Secretary at the address below:

Ms Kirsten Morrison
General Counsel and Company Secretary
Slater & Gordon Limited
485 La Trobe Street
Melbourne, Victoria 3000

or

by email to: Company.Secretary@slatergordon.com.au

1.15 Questions

If you have any questions in relation to the Scheme, lodgement of Proxy Forms or Voting Proof of Debt Forms, you are encouraged to contact the General Counsel and Company Secretary using the details provided above.

Important Notice Associated With Court Order Under Subsections 411(1) and 411(1A) of the *Corporations Act 2001* (Cth)

The fact that, under subsection 411(1) of the *Corporations Act 2001* (Cth), the Court has ordered that a meeting be convened and has approved the explanatory statement required to accompany the notice of meeting is not an endorsement of, or any other expression of opinion on, the Scheme and does not mean that the Court:

(a) has formed any view as to the merits of the proposed scheme or as to how creditors should vote (on this matter creditors must reach their own decision); or

(b) has prepared, or is responsible for the content of, the Explanatory Statement.

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KEY DATES AND TIMETABLE

Event	Date
Voting Entitlement Record Date	26 November 2017
Deadline for receipt of Voting Proof of Debt Forms and Proxy Forms for the Scheme Meeting	9.00 am on 26 November 2017
Scheme Meeting of the Senior Lenders	9.00 am on 28 November 2017
Shareholder Meeting	6 December 2017
Second Court Date	14 December 2017
Effective Date - Court Orders approving the Scheme are lodged with ASIC and Scheme takes effect	No earlier than 10.00 am on the Business Day after the day on which the Court makes the Court Orders approving the Scheme.
Proposed Calculation Date	The second Business Day after the Effective Date.
Implementation Date - proposed date on which Steps 3 to 26 are to be implemented under the Scheme	Five Business Days after the Effective Date, unless otherwise advised by the Scheme Administrators. ¹

Note: Unless otherwise stated, all times referred to in this Explanatory Statement and the documents contained in the Annexures are Melbourne times. The dates referred to in the above table are indicative only and are subject to change. The Scheme Company reserves the right to vary the times and dates set out above, subject to the Corporations Act and the approval of any variations by the Court and/or ASIC where required.

¹ If the Implementation Date would fall on a date between 24 December 2017 and 3 January 2018 (inclusive), the Implementation Date will be 5 January 2018.

2 Overview of Explanatory Statement and Scheme

2.1 Why have you been sent this Explanatory Statement?

This Explanatory Statement contains information about the proposed Scheme between the Scheme Company and its Scheme Senior Lenders.

You have been sent this document because, according to the records of the Scheme Company, you might be a Senior Lender of the Scheme Company.

If you are a Senior Lender at 7.00 pm on 26 November 2017, being the Voting Entitlement Record Date (irrespective of whether you were a Senior Lender as at the date of this Explanatory Statement), you will be eligible to vote at the Scheme Meeting to consider, and if thought fit, agree to the Scheme provided you lodge a Voting Proof of Debt Form and, if you wish to vote by proxy, your Proxy Form(s), by the required date. The form of the Voting Proof of Debt Form is set out in **Annexure I** to this Explanatory Statement. The form of the Proxy Form is set out in **Annexure C** to this Explanatory Statement.

Additionally, if you wish to vote by attorney or corporate representative, such attorney or corporate representative should bring to the Scheme Meeting evidence of his or her appointment including authority under which the appointment was made.

Each Senior Lender on the Voting Entitlement Record Date will be entitled to vote at the Scheme Meeting.

Voting Proof of Debt Forms and Proxy Forms should be lodged so that they are received by the Chairperson by 9.00 am on 26 November 2017.

For further details of the Scheme Meeting, refer to **Section 11** of this Explanatory Statement and the Notice of Meeting in **Annexure A** to this Explanatory Statement.

Receipt of this Explanatory Statement does not amount to confirmation that you are a Senior Lender or that you have a valid Claim against, or are owed any amount by, the Scheme Company.

2.2 Summary of the Scheme

The proposed Scheme with the Scheme Senior Lenders is a creditors' scheme of arrangement between the Scheme Company and its Scheme Senior Lenders pursuant to Part 5.1 of the Corporations Act.

The Resolution to approve the Scheme at the Scheme Meeting must be passed by a majority in number (more than 50%) of the Senior Lenders who are present and voting at the Scheme Meeting (either in person or by proxy, corporate representative or attorney), and being a majority whose debts claimed under the Voting Proof of Debt Forms together amount to at least 75% of the Secured Debt owing to the Senior Lenders present and voting at the Scheme Meeting (either in person or by proxy, corporate representative or attorney) (**Requisite Majority**).

If the Scheme is agreed to by the Requisite Majority, in order to become Effective, the Scheme must still be approved by the Court on the Second Court Date. The Court may grant its approval subject to such alterations or conditions as it thinks fit. However, it is a condition of the Scheme that any alterations the Court makes may not change the substance of the Scheme, including the Steps, in any material respect.

If the Scheme is then approved by the Court, the Court Orders approving the Scheme will be lodged with ASIC. The Scheme will then become Effective. Once all the Conditions Precedent set out in the Scheme are satisfied, the Steps to implement the Scheme will be undertaken.

2.3 Conditions Precedent to the Scheme and binding nature of the Scheme

The outstanding Conditions Precedent to the Scheme being implemented (detailed in **Section 7.2**) are:

- (a) as at 8.00 am on the Second Court Date, the Treasurer of the Commonwealth of Australia (or their delegate) has provided written advice or confirmation to the effect that there are no objections under the FATA to the Scheme, or has otherwise become precluded by the passage of time from making an order in respect of the Scheme;
- (b) as at 8.00 am on the Second Court Date, all relevant regulatory approvals have been obtained;
- (c) the Scheme is agreed to by the Requisite Majority at the Scheme Meeting;
- (d) Shareholders pass all necessary resolutions at the Shareholder Meeting;
- (e) receipt by the Scheme Company of cash proceeds in relation to project litigation matters substantially in accordance with budgeted quantum and timing in the period between the date of the Restructuring Support Deed and the Scheme Meeting;
- (f) by 8.00 am on the Second Court Date, each party to the Business Separation Agreement in respect of the separation of the Australian Operations and UK Operations has duly executed its counterpart, each of which is to be held in escrow and released in accordance with the terms of the Scheme;
- (g) as at 8.00 am on the Second Court Date, the deeds poll for the Scheme and the Shareholder Claimant Scheme come into, and remain, in effect (except those that are only executed or take effect on or after the Effective Date);
- (h) the necessary Court approvals are obtained for the S&G Schemes and the Hall Proceeding Settlement;
- (i) there are no restraints to implementation of the Scheme;
- (j) consents have been obtained in relation to Material Contracts;
- (k) all material authorisations required to complete the Scheme have been granted or obtained, and those authorisations have not been withdrawn, cancelled or revoked as at 8.00 am on the Second Court Date;
- (l) as at 8.00 am on the Second Court Date, each Security Trustee has received all instructions, consents and directions that it requires from any Beneficiary (as defined in the Security Trust Deed) or any person in an equivalent position with respect to the proposed New UK Security Documents, that is not a Senior Lender or a Senior Agent, and which is required to enable it to perform its obligations under the Scheme in accordance with the Steps;
- (m) as at 8.00 am on the Second Court Date, the Scheme Company and S&G UK have received all consents, releases and approvals that they require from any Beneficiary (as defined in the Security Trust Deed) that is not a Senior Lender, a Security Trustee or a Senior Agent, and which is required in order to provide certain releases of the Obligors in respect of the UK Ancillary Finance Documents, the Australian Transactional Facilities Documents and any Hedging Agreements in accordance with the Scheme;
- (n) as at 8.00 am on the Second Court Date, the IP Deed has been executed and remains in full force and effect;
- (o) as at 8.00 am on the Second Court Date, any approvals or consents, which are not otherwise described in paragraph 2.3(a) or paragraph 2.3(b) above but which are required by law or by any Government Agency to have been obtained in order

to implement the Scheme, have been obtained on an unconditional basis, or, if obtained on a conditional basis, such conditions have either been:

- (i) satisfied or waived, or
- (ii) accepted by each person that is a beneficiary of that approval or consent, and the approvals or consents remain in full force and effect and have not been withdrawn, suspended or revoked;

(p) as at 8.00 am on the Second Court Date:

- (i) each of:
 - (A) such number of Senior Lenders whose Claims as a Senior Lender represent at least 75% of the value of all Claims held by the Senior Lenders against the Company in their capacity as Senior Lenders;
 - (B) the Company (on behalf of itself and each other Obligor); and
 - (C) the Security Trustees, the Senior Agents and/or the Note Trustee (UK),

has confirmed to the Company and the Senior Agent (Aus) that each New Financing Document to which it will be a party is in final form;

(ii) each New Money Scheme Senior Lender has:

- (A) confirmed to the Scheme Company, the Senior Agent (Aus) and the Scheme Administrators that it will make available to the Senior Agent (Aus) its respective New Super Senior Facilities Relevant Proportion by no later than the second Business Day prior to the Implementation Date; and
 - (B) authorised the Scheme Administrators to execute and deliver the Super Senior Amendment Deed (New Facilities) and the New GBP Super Senior Facility Agreement in accordance with the Scheme; and
- (iii) the Scheme Company (acting reasonably) has formed the view that each condition precedent to financial close under the New Financing Documents will be satisfied or waived on or before the Implementation Date (other than conditions precedent that relate to the Scheme becoming Effective);

(q) as at 8.00 am on the Second Court Date, the Restructuring Support Deed has not been terminated and is still in full force and effect;

(r) by 8.00 am on the Second Court Date, the Supporting Senior Lenders have given written notice to the Scheme Company that the PwC Tax Opinion is reasonably acceptable to them;

(s) any other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to the Scheme (which conditions do not change the substance of the Scheme, including the Steps, in any material respect) have been satisfied; and

(t) the Scheme becomes Effective.

With the exception of the Conditions Precedent outlined in:

- (a) paragraph 2.3(i), which may be waived by the Scheme Company and 75% by value of the Supporting Senior Lenders; and

- (b) paragraphs 2.3(e), 2.3(f), 2.3(j), 2.3(k) and 2.3(r), each of which may be waived by 75% by value of the Supporting Senior Lenders only,

none of the above Conditions Precedent can be waived by either the Scheme Company and/or the Supporting Senior Lenders. If these Conditions Precedent are not satisfied then the Scheme cannot be implemented.

The Steps under the Scheme are intended to be completed by no later than 5 Business Days following the Effective Date.

If the Scheme is not implemented on or before 11.59 pm on the Sunset Date, then, with effect from that time, the Scheme will not be capable of implementation and will be of no further force or effect.

In the event the Scheme does become Effective, it will be binding upon the Scheme Company and all Scheme Senior Lenders as at the Effective Date, including those that did not vote in favour of the Scheme, or those that did not attend, or vote at, the Scheme Meeting.

The Scheme will also be binding upon the Scheme Administrators, the Security Trustees, the Senior Agents, the Note Trustee (UK), the Released Obligor Individuals, UK HoldCo and the Obligors (other than the Scheme Company) as a result of them each having signed a Deed Poll.

If, in the opinion of the Scheme Administrators, it is not possible to give effect to the Scheme, each of the Scheme Company, each other Obligor, the Released Obligor Individuals, the Senior Agents, the Security Trustees, the Note Trustee (UK), UK HoldCo and the Scheme Senior Lenders are required to do all things reasonably necessary to put each other party in the position they would have been in if none of the Steps under the Scheme had occurred.

2.4 Object and purpose of the Scheme

The Scheme forms part of a comprehensive recapitalisation of the Scheme Company. The Scheme Company is undertaking the recapitalisation by way of two schemes of arrangement; that is, this Scheme and the proposed Shareholder Claimant Scheme.

The principal object and purpose of this Scheme is to reduce the Group's Secured Debt and provide the Group with a more sustainable capital structure going forward. The Scheme, if implemented, will give effect to the following:

- (a) a partial compromise of the Group's Secured Debt;
- (b) a refinancing of the Super Senior Facilities by way of entry into:
 - (i) a new \$65 million AUD denominated super senior secured facility by the Scheme Company and Participating New Super Senior Facilities Senior Lenders; and
 - (ii) a new GBP denominated super senior secured facility by S&G UK and the Participating New Super Senior Facilities Senior Lenders for an aggregate principal amount equal to the GBP denominated commitments made available under the Super Senior GBP Incremental Facility;
- (c) the issue of such number of Shares to Scheme Senior Lenders equivalent to 95% (in aggregate) of the Scheme Company's equity immediately following the Implementation Date (with each Scheme Senior Lenders' entitlement to be issued New Shares determined in accordance with the procedure described in **Section 7.11**);
- (d) the transfer of the UK Operations by the Scheme Company to UK HoldCo, which will be wholly owned by the Scheme Senior Lenders on and from the Implementation Date (with each Scheme Senior Lenders' entitlement to be

issued UK HoldCo Shares determined in accordance with the procedure described in **Section 7.11**);

- (e) as partial consideration for the transfer of S&G UK shares from the Scheme Company to UK HoldCo, the Scheme Company will have recourse to the first \$40 million of any Watchstone Proceeds received by S&G UK and which will be subject to security granted in favour of the Security Trustee (Aus) securing the Scheme Company's obligations under the New AUD Super Senior Facility and the Restated SFA;
- (f) UK HoldCo will endorse and deliver a Promissory Note in favour of the Scheme Company as partial consideration for the transfer of S&G UK shares from the Scheme Company to UK HoldCo;
- (g) the issue of the Convertible Notes by S&G UK to Scheme Senior Lenders (with each Scheme Senior Lender's entitlement to be issued Convertible Notes determined in accordance with the procedure described in **Section 7.12**);
- (h) refinancing amounts owing by the Scheme Company under the Syndicated Facility Agreement such that the Scheme Company will owe \$60 million of AUD denominated secured debt under that agreement immediately following implementation of the Scheme on the amended terms set out in **Section 7.8(b)**; and
- (i) the grant of the releases described in **Section 7.4**.

The Scheme will not compromise unsecured trade creditors of the Scheme Company or the secured or unsecured creditors of the Scheme Company other than the Scheme Senior Lenders. In particular, the Scheme will not compromise amounts owed to the creditors under the Group's Transactional Facilities which will be provided a first ranking priority status over enforcement proceeds received in respect of:

- (a) any Australian Obligor, up to a maximum aggregate exposure of \$10 million (or its equivalent); and
- (b) any UK Obligor, up to a maximum aggregate exposure of \$5 million (or its equivalent).

Section 7 of this Explanatory Statement contains detailed information on the terms of the Scheme. The Scheme itself is set out in **Annexure B**.

2.5 Why the Scheme is being proposed

The Scheme is being proposed as it offers the best means for the Scheme Company and the Group Entities to restructure their liabilities. It is intended that implementation of the Scheme will:

- (a) reduce the Scheme Company's and S&G UK's total Secured Debt to a sustainable level;
- (b) enable the Scheme Company and S&G UK to continue to trade and operate;
- (c) result in the separation of the UK Operations from the Australian Operations, with the UK Operations being owned by UK HoldCo from the Implementation Date; and
- (d) prevent a breach of the Syndicated Facility Agreement, the Super Senior Subscription Agreement and other Finance Documents.

KPMG (who were engaged by the Scheme Company to prepare the Independent Expert's Report as described in **Section 9** and at **Annexure D** to this Explanatory Statement) has opined, subject to the assumptions in the Independent Expert's Report, that:

- the Scheme Company's current level of debt exceeds its enterprise value;

- if the Scheme is not implemented, the Scheme Company would likely be put into external administration;
- the return to Senior Lenders from an insolvency of the Scheme Company is highly uncertain due to the complexity of its operations across multiple jurisdictions and the risks of regulatory intervention; and
- the Scheme Company will be solvent following implementation of the Scheme.

The proposed Scheme, if agreed to by the Requisite Majority of Senior Lenders and approved by the Court, provides a mechanism to avoid an insolvency event for the Scheme Company, and its Group Entities, and the likely diminution in value of the Scheme Company's assets and potential costs of an insolvency event.

2.6 Support for the Scheme

All the Senior Lenders have signed the Restructuring Support Deed and, in doing so, have agreed to support the Scheme.

Further details regarding the Restructuring Support Deed are set out in **Section 3.3** of this Explanatory Statement and the terms of the Restructuring Support Deed are summarised in a table at **Annexure J** to this Explanatory Statement.

2.7 Secured Debt

As at 30 June 2017, the Scheme Company and S&G UK (as co-borrowers) collectively owe \$119.2 million and £379.8 million to the Senior Lenders under the terms of the Syndicated Facility Agreement.

2.8 Other debt

The Scheme Company has the following additional debt facilities:

- Super Senior Facilities with its Senior Lenders for an aggregate amount of \$65 million which is drawn to \$40.0 million as at 2 October 2017, with further draw-downs expected to occur prior to the Scheme Meeting; and
- Transactional Facilities, which are projected to be utilised in the amount of approximately \$10.1 million by 31 October 2017.

The Super Senior Facilities will be refinanced on implementation of the Scheme with the entry into the New Super Senior Facilities.

Amounts owing under the Transactional Facilities will not be compromised by the implementation of the Scheme.

2.9 Transaction costs

The transaction costs associated with the restructure of the Group's liabilities, being in respect of the Scheme, including legal and other adviser Costs are estimated to be approximately \$15.0 million (excluding GST). Some of these Costs have already been paid by the Scheme Company. The balance of these Costs will be paid utilising funds expected to be drawn under the Super Senior Facilities and the Scheme Company's operating cash flow.

In addition to the above transaction costs, the Scheme Company expects that it would incur a further \$6.6 million in other scheme-contingent and related payments. The Scheme Company also estimates that a further \$15.5 million of one-off costs will be required in order to restructure the operations of the Group across both the Australian Operations and the UK Operations. This is comprised of \$8.9 million of advisory costs and \$6.6 million of other one-off costs, which includes the Scheme Administrators' fees in respect of the Senior Lender Scheme.

2.10 Summary of rights of Scheme Senior Lenders before and after the implementation of the Scheme

The following table is intended to provide Senior Lenders with a brief summary of the rights they have before and after implementation of the Scheme (excluding other financing arrangements not affected by the Scheme).

Rights of Senior Lenders	Pre-implementation of the Scheme	Post-implementation of the Scheme
Secured Debt pursuant to the Syndicated Facility Agreement	\$119.2 million (in aggregate for all Senior Lenders as at 30 June 2017) plus any accrued or capitalised interest. £379.8 million (in aggregate for all Senior Lenders as at 30 June 2017) plus any accrued or capitalised interest.	Restated SFA totalling \$60 million AUD with the Scheme Company following completion of the Steps.
Debt owed to Senior Lenders who are Original Super Senior Lenders and/or Participating Incremental Facilities Lenders under the Super Senior Facilities	Up to \$65 million and up to the GBP equivalent of \$25 million, plus accrued or capitalised interest, will be available to be drawn under the Super Senior Facilities prior to implementation of the Scheme.	Super Senior Facilities will be refinanced by the: • New AUD Super Senior Facility of \$65 million with the Scheme Company; and • New GBP Super Senior Facility with S&G UK (denominated in GBP) for an aggregate principal amount equal to the GBP denominated commitments made available under the Super Senior GBP Incremental Facility. Refer to Section 7.8(a) and Section 7.9(a) for further information.
Shares	As at the date of this Explanatory Statement, the Scheme Company is not aware of any Senior Lender holding any equity in the Scheme Company.	New Shares will be issued to Scheme Senior Lenders such that they will hold 95% of the Shares in the Scheme Company immediately post-implementation of the Scheme. Refer to Section 7.11 for further information regarding how each Scheme Senior Lender's entitlement to be issued New Shares will be determined.

Rights of Senior Lenders	Pre-implementation of the Scheme	Post-implementation of the Scheme
UK HoldCo Shares	None.	UK HoldCo Shares will be issued to Scheme Senior Lenders such that they will hold 100% of UK HoldCo immediately post-implementation of the Scheme. Refer to Section 7.11 for further information regarding how each Scheme Senior Lender's entitlement to be issued UK HoldCo Shares will be determined.
UK Operations	None.	Shares in S&G UK, shares in Walker Smith Way and the UK Operations will be transferred to UK HoldCo. Refer to Section 7 and Section 10.1 for further information regarding the transfer and separation of the UK Operations.
Convertible Notes with S&G UK	None.	£250 million secured Convertible Notes (subject to any adjustments due to rounding) will be issued by S&G UK to Scheme Senior Lenders. Refer to Section 7.9(b) for further information regarding how each Scheme Senior Lender's entitlement to be issued Convertible Notes will be determined. The Convertible Notes (with a face value of £250 million, subject to any adjustments due to rounding) will be repayable from specific proceeds, including Watchstone Proceeds in excess of the first \$40 million received. These will be recognised on the balance sheet at their fair value in accordance with relevant accounting standards.

Rights of Senior Lenders	Pre-implementation of the Scheme	Post-implementation of the Scheme
Director nomination rights for the Scheme Company (Anchorage)	No director nomination rights.	A right that may be exercised one time only to nominate four non-executive directors to the Board. Additional one time only right to nominate one further director together with all Supporting Senior Lenders. Refer to Section 3.5 for further information.
Director nomination rights for the Scheme Company (all other Supporting Senior Lenders except Anchorage)	No director nomination rights.	A right that may be exercised one time only to nominate two non-executive directors to the Board. Additional one time only right to nominate one further director together with all Supporting Senior Lenders (including Anchorage). Refer to Section 3.5 for further information.
UK HoldCo governance arrangements	None.	Anchorage will have the right to appoint three directors, one of whom will be the chairperson of that board and will have the casting vote. The other Supporting Senior Lenders holding not less than 20% of the UK HoldCo Shares will have the right to appoint one director. Refer to Section 3.6 for further information.

2.11 Summary of Senior Lenders' debt reduction

The table below illustrates the total aggregate debt owed to the Senior Lenders prior to the Scheme in respect of the Group, and following implementation of the Scheme, the amounts owed to the Scheme Senior Lenders by S&G UK and the Scheme Company respectively.

Pre-implementation of the Scheme (owed by the Group)	Post-implementation of the Scheme ²	
	S&G UK	Scheme Company
\$761.6 million ³	GBP equivalent of up to \$25 million plus the Convertible Notes.	Up to \$125 million. ⁴

2.12 Shareholder Claimant Scheme

In addition to restructuring the Scheme Company's Secured Debt under this Scheme, the Scheme Company is also proposing a Shareholder Claimant Scheme to extinguish all Shareholder Claims (including those currently or previously filed against the Scheme Company).

This Scheme and the Shareholder Claimant Scheme are inter-conditional. This means that the Scheme cannot become Effective unless the Shareholder Claimant Scheme is also approved by Shareholder Claimants and the Court. In addition, the Scheme is conditional on the Hall Proceeding Settlement being approved by the Court.

As such, on implementation of the Scheme and the Shareholder Claimant Scheme, the Scheme Company will emerge with a renewed ability to trade and operate, without the uncertainties associated with ongoing litigation and unsustainable debt levels.

2.13 What are the advantages and disadvantages of the Scheme?

The potential advantages and disadvantages of the Scheme are summarised below and set out in more detail in **Section 5** and **Section 6** of this Explanatory Statement. Senior Lenders should read those sections in full.

(a) Advantages for Senior Lenders

Senior Lenders may consider voting in favour of the Scheme because:

- (i) it will effect a partial debt-for-equity swap which may result in the Scheme Senior Lenders recovering a portion of the Secured Debt realised through the value of the New Shares and the UK HoldCo Shares, amongst other things;
- (ii) the probable alternative to the Scheme, being a formal insolvency process, will likely reduce the realisable value of the Scheme Company's business and assets (including the UK Operations);

² This reflects the debt owed to the Scheme Senior Lenders only and does not include any amounts owed under the Transactional Facilities following implementation of the Scheme, or any other debts owed by the Scheme Company. Senior Lenders should refer to **Section 2.8(b)** and **Section 3.1(c)** for further details about the Transactional Facilities.

³ As at 30 June 2017 and assumes an AUD:GBP exchange rate of 0.5912. Total Secured Debt of \$761.6 million comprises \$119.2 million AUD and £379.8 million GBP.

⁴ This figure comprises the Restated SFA and the total amount available under the New AUD Super Senior Facility.

- (iii) it has the potential to avoid the costs, delays and uncertainty that could result from formal insolvency processes such as voluntary administration, liquidation or receivership of the Scheme Company and/or any of the Obligors;
- (iv) it will achieve greater transaction certainty for Senior Lenders than under a sale or restructuring of the Scheme Company without a scheme of arrangement;
- (v) implementation of the Scheme, and the consequential reduction of Secured Debt, will improve the Scheme Company's and S&G UK's financial position;
- (vi) separation of the UK Operations from the Australian Operations will enable both operations to trade and operate in their own right and may improve their ability to raise funds in the future and to expand their business operations;
- (vii) as Scheme Senior Lenders will be issued Shares in the Scheme Company, which is a publicly listed company, Scheme Senior Lenders will have certain statutory and ASX Listing Rule protections; and
- (viii) in respect of the shares to be issued to Scheme Senior Lenders in UK HoldCo, a private limited company incorporated under English law, the UK HoldCo Articles will contain certain shareholder protections.

Further details are set out in **Section 5** of this Explanatory Statement.

(b) Disadvantages for Senior Lenders

Senior Lenders may consider voting against the Scheme because:

- (i) Scheme Senior Lenders will release the Scheme Company and each other Obligor from their obligations to pay a portion of the Secured Debt to the Scheme Senior Lenders;
- (ii) the:
 - (A) Australian Obligors will be released from any Claims which may be made against them under the Finance Documents (save for certain Finance Documents that will remain in place with the Australian Obligors following implementation of this Scheme including the Restated SFA, each Transactional Facilities Document and any Hedging Agreement that will remain in place following implementation of the Scheme and be made available to the Australian Operations); and
 - (B) UK Obligors will be released from any Claims which may be made against them under the Finance Documents (save for certain Finance Documents that will remain in place with the UK Obligors following implementation of this Scheme including any Transactional Facilities Document and any Hedging Agreement that will remain in place following implementation of the Scheme and be made available to the UK Operations);
- (iii) each Scheme Senior Lender will provide the releases described in **Section 7.4**;
- (iv) the New Shares and UK HoldCo Shares issued to Scheme Senior Lenders will rank behind the Claims of all creditors (including unsecured creditors) of the Scheme Company and UK HoldCo in a winding up of the Scheme Company or of UK HoldCo (respectively);

- (v) the number of New Shares and UK HoldCo Shares issued to each Scheme Senior Lender will depend on the level of their commitment (if any) under the New Super Senior Facilities and the commitment they made (if any) under the Super Senior Incremental Facilities;
- (vi) the amount of Convertible Notes issued to each Scheme Senior Lender will depend on the level of their commitment (if any) under the New Super Senior Facilities;
- (vii) existing facilities comprising \$119.2 million of the Secured Debt (plus any additional interest accrued or capitalised but unpaid up to and including the Implementation Date) will be amended and restated under the Restated SFA on the same terms except for interest (which will accrue at a rate equal to the base rate plus 2% PIK), deletion of all financial covenants, the extension of the maturity date and the Scheme Senior Lenders' recourse will be limited to the Australian Obligors only;
- (viii) the redemption of the Convertible Notes will be limited to the amount of any Watchstone Proceeds received by S&G UK in excess of the Watchstone Entitlement Amount, and certain other proceeds received by any UK Obligor, after the application of such proceeds to repay other prior-ranking indebtedness, and there is no guarantee that such proceeds will equal the face value of the Convertible Notes;
- (ix) as set out in **Section 7.22**, each Scheme Senior Lender and:
 - (A) the Scheme Company will execute and enter into a Voluntary Escrow Deed that will restrict that Scheme Senior Lender from disposing of their New Shares and any debt instruments relating to indebtedness owing to them by the Scheme Company and/or any other Australian Obligor; and
 - (B) UK HoldCo and S&G UK will execute and enter into a Voluntary Escrow Deed that will restrict that Scheme Senior Lender from disposing of their UK HoldCo Shares, Convertible Notes and any other debt instruments relating to indebtedness owing to them by S&G UK and/or any other UK Obligor,
 for certain periods of time following implementation of the Scheme, except in the circumstances permitted under the Voluntary Escrow Deeds;
- (x) there are risks associated with holding shares in the Scheme Company and UK HoldCo. Some of these risks are detailed in **Section 8** of this Explanatory Statement. No assurances can be given in respect of the future performance of the Scheme Company or UK HoldCo, the value of, or return on, Shares or UK HoldCo Shares, or the ability of any Scheme Senior Lender to sell its Shares or UK HoldCo Shares;
- (xi) there may be some counterparties to material contracts with the Scheme Company or any of its Subsidiaries (including in respect of the UK Operations) who may have rights to terminate those contracts as a result of the implementation of the Scheme;
- (xii) Chapter 6 of the Corporations Act imposes certain restrictions on the acquisition of "relevant interests" in Shares in the Scheme Company; and
- (xiii) while there is no certainty as to the outcome of a formal insolvency process, Senior Lenders may consider that such a process will deliver a better outcome to them than implementation of the Scheme.

Further details are set out in **Section 6** of this Explanatory Statement.

2.14 Senior Lenders and amounts owing to them

As at 30 June 2017, the Secured Debt is held by 12 Senior Lenders.

A list which provides details of the name and amount owing to each Senior Lender as at 30 June 2017 is set out in **Annexure G** to this Explanatory Statement.

2.15 Senior Lenders should obtain advice

The Scheme Company is not in a position to make an assessment of the prospects of success of any individual Senior Lender's Claim, the quantum of recovery which may be available to individual Senior Lenders if the Scheme does not proceed or the future value of any New Shares if the Scheme proceeds. This is a matter for each Senior Lender to consider. An individual Senior Lender may form the view that – despite the potential uncertainty and costs of voluntary administration, liquidation and/or receivership of the Scheme Company, which may occur absent the Scheme, and the costs and delays of any recovery actions that may include possible litigation – the Senior Lender would achieve a greater return by pursuing any Claims which it may have against the Scheme Company without the Scheme or that the administration, liquidation and/or receivership of the Scheme Company would not cause undue disruption to the business of the Scheme Company.

As the financial, legal and taxation consequences of the Scheme may be different for each Senior Lender, Senior Lenders should seek professional financial, legal and taxation advice in relation to the Scheme.

2.16 Director recommendations

Each Director of the Scheme Company recommends that Senior Lenders **vote in favour** of the Resolution at the Scheme Meeting, in the absence of a Superior Proposal.

2.17 What should you do next?

(a) Read this Explanatory Statement

Senior Lenders should read and carefully consider the information in this Explanatory Statement to help them make an informed decision on how to vote at the Scheme Meeting.

(b) Consider voting at the Scheme Meeting

The time for determining eligibility to vote at the Scheme Meeting is 26 November 2017 at 7.00 pm, being the Voting Entitlement Record Date. Only those Senior Lenders of the Scheme Company who are Senior Lenders at that time will be eligible to vote at the Scheme Meeting.

Senior Lenders who wish to vote on the Scheme may do so:

- (i) by proxy, using the Proxy Form set out in **Annexure C** to this Explanatory Statement;
- (ii) in person, by attending the Scheme Meeting; or
- (iii) by appointing an attorney to attend the Scheme Meeting to vote on behalf of that Senior Lender.

To be eligible to vote at a Scheme Meeting, Senior Lenders should ensure that they lodge their duly completed Voting Proof of Debt Form as set out in **Annexure I** to this Explanatory Statement and, if they wish to vote by proxy, their duly completed Proxy Form, as set out in **Annexure C** to this Explanatory Statement, in accordance with the instructions on the forms and **Section 11.7** of this Explanatory Statement. These forms should be lodged so that they are received by the Chairperson by 9.00 am on 26 November 2017.

Subject to the directions of the Court in relation to the procedures for voting at the Scheme Meeting, the Chairperson of the Scheme Meeting will decide whether each Senior Lender will be admitted to vote at the Scheme Meeting for the Scheme Company for their proportion of the Secured Debt. For voting purposes only, the value of each Senior Lender's Claim will be determined by the Chairperson, based on information provided by the Senior Lender itself in the Voting Proof of Debt Form, information provided to the Scheme Company by the Senior Agent (Aus) and any other information available to the Chairperson. Further details of the procedure for admitting Senior Lenders to vote at the Scheme Meeting are provided in **Section 11** of this Explanatory Statement.

Senior Lenders who do not vote in the Scheme Meeting or who vote against the Scheme will still be bound by the Scheme and will still have their Claims compromised under the Scheme provided that the Scheme is agreed to by the Requisite Majority, approved by the Court, the Shareholder Claimant Scheme and the Hall Proceeding Settlement have also been approved by the Court and all other Conditions Precedent are satisfied or, if permitted, waived.

(c) **Consider whether a FIRB notification is required**

If you are a foreign person, for the purposes of the FATA, you should consider whether you need to provide a notification to FIRB in respect of the acquisition of New Shares on implementation of the Scheme. If you require such approval, and do not obtain it in advance of the Implementation Date, you may be exposed to penalties and an order requiring you to dispose of the New Shares.

Any such Senior Lender may contact David Clee of Gilbert + Tobin for advice on the FIRB requirements. The cost of this advice will be met by the Scheme Company.

3 Background to the Scheme

3.1 Financial arrangements of the Scheme Company

(a) Syndicated Facility Agreement

In May 2015, the Scheme Company and each other Obligor entered into a multi-currency (AUD/GBP) Syndicated Facility Agreement.

The Syndicated Facility Agreement is the primary source of the Scheme Company's and S&G UK's indebtedness.

The Scheme Company's and S&G UK's liability to the Senior Lenders under the Syndicated Facility Agreement as at 30 June 2017 is as follows:

Facility		Amount	Expiry
Facility A - term loan facility		£164.6 million plus interest	29 May 2018
Facility B - term loan facility		£165.7 million plus interest	31 March 2019
Facility C - term loan facility, bank guarantee and/or letter of credit	Owed by S&G UK	£49.5 million plus interest	29 May 2018
	Owed by Scheme Company	\$25.8 million plus interest	
Facility D - term loan facility		\$48 million plus interest	29 May 2018
Facility E - term loan facility		\$45.4 million plus interest	31 March 2019
Total Secured Debt	Owed by the Scheme Company	\$119.2 million plus interest	-
	Owed by S&G UK	£379.8 million plus interest	-

The Scheme Company's and S&G UK's obligations under the Syndicated Facility Agreement are secured against all the assets of the Scheme Company, S&G UK and each other Obligor, who have guaranteed all the Scheme Company's and S&G UK's obligations under the Syndicated Facility Agreement in favour of the Security Trustee (Aus) (who holds the Security as trustee on behalf of all beneficiaries of the Security Trust Deed (including the Senior Lenders, the Security Trustee (Aus) and the Senior Agent (Aus))).

(b) Super Senior Facilities

On 5 May 2017, the Scheme Company announced that it had entered into a \$40 million working capital facility with some of its Senior Lenders. This Super Senior Facility was established to provide additional financial resources to support

ongoing restructure discussions with the Senior Lenders as well as to provide additional working capital for the Scheme Company.

On 31 August 2017, the Scheme Company announced that certain Senior Lenders had committed to provide the Scheme Company an additional \$50 million funding under the Super Senior Incremental Facilities.

Scheme Senior Lenders who elected to participate in the Super Senior Incremental Facilities will be entitled to receive their pro rata share of the Incremental Facility Commitment Fee. For further details of the number of Shares to be issued in satisfaction of the Incremental Facility Commitment Fee, refer to **Section 7.11(b)**.

The material terms of the Super Senior Facilities are as follows:

- (i) **(commitment)** a commitment of \$90 million in aggregate principal amount comprising:
 - (A) \$65 million tranche denominated in AUD (including the Super Senior AUD Incremental Facility); and
 - (B) \$25 million tranche denominated in GBP (being the Super Senior GBP Incremental Facility);
- (ii) **(maturity date)** 3 years commencing from 28 April 2017. If the Scheme is not implemented by 31 January 2018, the termination date is 31 January 2018;
- (iii) **(interest rate)** in respect of:
 - (A) the first \$40 million drawn under the Super Senior Facilities - 10% per annum; and
 - (B) the Super Senior Incremental Facilities - 10% PIK increasing to:
 - 15% PIK at any time on or after 1 December 2017; and
 - 20% PIK at any time on or after 31 January 2018; and
- (iv) **(ranking)** ranks ahead of the Senior Facilities under the Syndicated Facility Agreement and behind any amounts owing under the Transactional Facilities up to a maximum aggregate exposure of \$15 million.

If the Scheme is implemented, the Super Senior Facilities will be refinanced by the New Super Senior Facilities.

(c) **Transactional Facilities**

The Scheme Company and each other Obligor have entered into a number of transaction banking facilities with Westpac Banking Corporation and National Australia Bank Limited. The transactional banking facilities include bank guarantee and performance guarantee facilities, credit card facilities, indemnity facilities, overdrafts, finance leases, hedging agreements and operating lease agreements. These transactional banking facilities will not be compromised by the Scheme, and if the Scheme is implemented, these transactional banking facilities will continue on their current terms other than being:

- (i) provided with a first ranking priority status over enforcement proceeds received in respect of:
 - (A) any Australian Obligor up to a maximum aggregate exposure of \$10 million (or its equivalent);
 - (B) any UK Obligor up to a maximum aggregate exposure of \$5 million (or its equivalent); and

(ii) extended to have a 30 June 2018 termination date.

(d) **Defaults**

The Scheme Company considers that, if the Scheme is not implemented, it will not be in a position to repay any amounts due under the Syndicated Facility Agreement or the Super Senior Facilities when due (including amounts that were due on 29 May 2017). The Directors of the Scheme Company consider that, without implementation of the Scheme, the Scheme Company will likely become insolvent. This view is supported by the Independent Expert's Report (which can be found at **Annexure D** to this Explanatory Statement).

3.2 **Alternatives considered**

The Scheme Company, with its financial advisers, has considered and investigated a number of alternatives to the Scheme, which could have provided a way to repay the Secured Debt. These included:

- (a) a sale of some or all of its assets, together with the undertaking of the performance improvement plan to increase revenue and reduce costs for the Scheme Company and the Obligors (which, given the state of the Group, and the value attributed to key assets, was, in the view of the Directors, insufficient to reduce the debt to a sustainable level); and
- (b) a refinance of all amounts outstanding under the Syndicated Facility Agreement and the Super Senior Facilities on more favourable terms (which, in the view of the Directors, was not possible given the amount of debt to be refinanced, and the current earnings of the Group).

The Scheme is being proposed because none of the options investigated, as outlined above, provided, or would provide, a solution which would enable repayment of the Secured Debt.

Further, the Board does not consider that taking time to investigate any of these options further is likely to provide a proposal which would allow for repayment of the Secured Debt by the respective maturity dates. Given the approaching repayment dates for the Secured Debt and the Scheme Company's current unsustainable level of debt, the Board considers that the Scheme is the only way to satisfy its obligations to the Senior Lenders.

3.3 **Restructuring Support Deed**

On 29 June 2017, the Scheme Company, the Obligors and the Supporting Senior Lenders entered into the Restructuring Support Deed, which was amended on 31 August 2017, and requires those parties to use reasonable endeavours to give effect to the restructure contemplated by the Restructuring Support Deed (which includes this Scheme).

The terms of the Restructuring Support Deed are summarised in the table extracted from an ASX announcement released by the Scheme Company on 31 August 2017 entitled "*Market Update: Amended Recapitalisation Agreement*" at **Annexure J** to this Explanatory Statement.

3.4 **Exclusivity provisions**

The Scheme Company is required to comply with certain exclusivity obligations under the Restructuring Support Deed for the duration of an exclusivity period (commencing at the time of the execution of the Restructuring Support Deed by all parties to it, and ending on the earlier of the valid termination of the Restructuring Support Deed or 31 December 2017) including:

(a) **No-shop**

The Scheme Company must not, and must ensure that its Representatives do not, directly or indirectly solicit, initiate or invite enquiries, discussions, negotiations or proposals in relation to, or which may reasonably be expected to lead to, a Competing Proposal, or communicate to any person any intention to do any of these things.

(b) **No-talk**

Subject to the fiduciary exception summarised in **Section 3.4(e)**, the Scheme Company must not, and must ensure that its Representatives do not:

- (i) directly or indirectly enter into, continue or participate in any discussions or negotiations in relation to, or which may reasonably be expected to lead to, a Competing Proposal;
- (ii) disclose any non-public information about the business or affairs of the Scheme Company to a Third Party with a view to obtaining, or which may reasonably be expected to lead to, a Competing Proposal, other than in the ordinary course of business or as required by law;
- (iii) accept, enter into or offer to accept or enter into any agreement, arrangement or understanding in relation to an offer or proposal from any third party in relation to a Competing Proposal; or
- (iv) communicate to any person any intention to do any of the things referred to in **Sections 3.4(b)(i) to 3.4(b)(iii)**.

(c) **No due diligence**

Subject to the fiduciary exception summarised in **Section 3.4(e)**, the Scheme Company must not:

- (i) solicit, initiate, facilitate or encourage any party (other than the Senior Lenders or their Representatives) to undertake due diligence on the Scheme Company or any Group Entity; or
- (ii) make available to any other person (other than the Senior Lenders or their Representatives) or permit such person to receive any non-public information relating to the Scheme Company or any Group Entity.

(d) **Notification obligation**

Subject to the fiduciary exception outlined in **Section 3.4(e)** the Scheme Company must notify the Senior Lenders who are parties to the Restructuring Support Deed as soon as practicable, but in any event within one Business Day, if the Scheme Company is approached, or if any of the Scheme Company's Representatives are approached about a Competing Proposal, or if the Scheme Company provides or intends to provide any material non-public information to a Third Party to enable that Third Party to make a Competing Proposal.

(e) **Fiduciary exception**

The fiduciary exception allows the Board to consider certain Competing Proposals received by the Scheme Company after entering into the Restructuring Support Deed and take any action that would otherwise be prohibited by the notification, no-talk and no due diligence provisions of the Restructuring Support Deed, if:

- (i) such action is in response to a bona fide Competing Proposal; and
- (ii) to the extent that the Board, acting in good faith and after obtaining legal advice, determines that not undertaking the prohibited action, or undertaking the required action, would be likely to result in a breach by a Director of his or her fiduciary or statutory duties.

(f) **Matching right**

The Restructuring Support Deed requires that, the Scheme Company must not enter into any agreement or arrangement in relation to or in connection with the implementation of a Competing Proposal (a **Rival Proposal**) unless:

- (i) the Rival Proposal is a Superior Proposal;
- (ii) the Scheme Company has given the Supporting Senior Lenders written notice of the Third Party's identity, the consideration, timing, conditions, structure and other key terms of the Rival Proposal (**Matching Right Notice**); and
- (iii) the Supporting Senior Lenders do not, within five Business Days after receiving the Matching Right Notice, make a written proposal to the Scheme Company in respect of an improvement to the consideration received under the Scheme or an alternative transaction or arrangement that the Board determines, acting in good faith, is more favourable or no less favourable for both the Shareholders and the Senior Lenders as that which would result from the Superior Proposal.

3.5 **Board governance matters for the Scheme Company**

Under the Restructuring Support Deed, the Board has agreed to undertake a Board renewal process which will enable the Scheme Senior Lenders (who will collectively own approximately 95% of the Scheme Company's equity immediately following implementation of the Scheme) to elect New Directors.

All existing Directors will resign in due course as New Directors are appointed. Andrew Grech stepped down from his position as Group Managing Director on 29 June 2017 and will remain a non-executive Director of the Scheme Company until the close of the Shareholder Meeting. Following Andrew Grech's resignation, Hayden Stephens will fill the role of legal practitioner director as required by the relevant provisions of the *Legal Profession Act 2007* (Queensland) and equivalent provisions in the jurisdictions in which the Scheme Company conducts legal practices.

Pursuant to the terms of the Restructuring Support Deed, immediately following implementation of the Scheme, the Board will be comprised of seven directors being:

- (a) four non-executive directors nominated by Anchorage:
 - (i) one of whom will be the chairperson of the Board; and
 - (ii) each of whom will not receive any remuneration if they are an employee of Anchorage or any of its affiliated entities;
- (b) two non-executive directors nominated by the Supporting Senior Lenders (other than Anchorage), each of whom will not receive any remuneration if they are employed by a Supporting Senior Lender or any affiliated entity of any Supporting Senior Lender; and
- (c) any other person that the Supporting Senior Lenders nominate to the Board, provided that nominating such a person will not result in the Scheme Company having more than seven directors immediately following that person's appointment to the Board.

The board nomination rights described above will be exercisable only once and prior to implementation of the Scheme.

As at the date of this Explanatory Statement, Anchorage has nominated three individuals to be appointed to the Board with effect from the Implementation Date. Those nominations will be considered by Shareholders at the Shareholder Meeting and, if their appointments are approved by Shareholders at that meeting, those nominees will not require re-election for a period of three years, other than to the extent necessary to

comply with ordinary director rotation requirements. It should be noted that even if Shareholders do not approve those appointments at the Shareholder Meeting, they will still be appointed on the Implementation Date if the Scheme is approved and implemented.

In addition, the Restructuring Support Deed provides that the new Board will determine the board composition of each Group Entity domiciled in Australia.

The Supporting Senior Lenders have acknowledged that, in exercising their rights with respect to board composition, the Scheme Company and the Group Entities domiciled in Australia must remain in compliance with all applicable laws regarding 'legal practitioner director' requirements and agree to not knowingly cause non-compliance with any such law as a result of the exercise of these rights.

3.6 Board governance matters for UK HoldCo

Pursuant to the terms of the Restructuring Support Deed, as at the Implementation Date, the board of UK HoldCo must comprise:

- (a) three directors to be nominated by Anchorage, one of whom will be the chairperson of that board and will have the casting vote;
- (b) the chief executive officer of UK HoldCo;
- (c) the chief financial officer of UK HoldCo; and
- (d) one director to be appointed by the Supporting Senior Lenders (other than Anchorage) holding not less than 20% of the UK HoldCo Shares on issue - provided that if two separate Supporting Senior Lenders or groups of Supporting Senior Lenders each hold more than 20% of UK HoldCo's Shares, then the Supporting Senior Lenders or group of Supporting Senior Lenders with the largest shareholding between the two shall appoint such director.

3.7 Reason for the Scheme

If the Scheme (as described in **Section 7**) is not implemented and an alternative debt repayment solution which is supported by the Requisite Majority of Senior Lenders is not found promptly, it is expected that the Directors of the Scheme Company would appoint a voluntary administrator and the Security Trustee (Aus) (on the instructions of the Senior Lenders) would appoint a receiver (or receiver and manager) over the assets of certain of the Obligors to the extent that they have provided Security in favour of the Security Trustee (Aus). See **Section 2.5** for further information.

4 The Scheme Company

This section provides an overview of the Scheme Company, its principal activities and its history.

The Scheme Company is listed on ASX and is obliged to comply with the continuous disclosure requirements of ASX. Information on the Scheme Company may also be obtained from ASX's website www.asx.com.au or from the Scheme Company's website www.slatergordon.com.au.

4.1 Background

The Scheme Company is a consumer legal services organisation operating across Australia and the United Kingdom. The Scheme Company provides legal services in two main areas of consumer law:

- personal injury law (including motor vehicle accidents, workers' compensation/employers liability, industrial disease and civil liability law); and
- general law (including family and relationship law, wills, estate planning, probate, business and specialised litigation, class actions, real estate, crime and regulation and employment).

The Scheme Company listed on the ASX in 2007 and expanded into the United Kingdom in 2012.

4.2 Current operations

The Scheme Company's mission is to provide people with easier access to legal services. This is sought to be achieved by operating in segments of the legal market to which high levels of process and systems engineering can be applied to build operations of scale and capability that provide highly specialised services.

Revenue is generated from providing legal and associated services to individual clients across Australia and the United Kingdom annually. Revenue for the Group is not reliant on any one key customer or case outcome. The Scheme Company's current business is divided into the Australian Operations and the UK Operations. Further details about each of these segments of the Scheme Company's business are provided below.

(a) Australian Operations

The Scheme Company's business, Slater and Gordon Lawyers, Australia, is an Australian market leader in the provision of consumer legal services. As at 30 June 2017 the firm employed 1,140 staff.⁵

The Australian Operations are primarily organised across two business units – personal injury law and general law. The business typically generates new matters through direct-to-consumer marketing and establishing and fostering client relationships with key strategic groups, such as unions.

The Australian Operations constitute one of the largest of three established national firms operating in the Australian consumer legal services market. The Australian Operations' major competitors include Maurice Blackburn and Shine Lawyers. While the market is fragmented outside these three major firms, competition remains strong due to a large number of capable, geographically focused small firms operating within the personal injury law and general law practice areas in Australia.

⁵ This figure is calculated as at 30 June 2017 and does not include any of the redundancies (announced to the ASX on 31 August 2017) during the period from 30 June 2017 until the implementation of the recapitalisation.

Details of the Australian Operations' personal injury law and general law practices are provided below.

(i) **Personal injury law**

The personal injury law division is a national practice which provides specialist legal services to individuals in a range of practice areas, including many areas of liability and compensation law.

Key practice groups include:

- motor vehicle accidents;
- workers compensation;
- dust diseases;
- public liability; and
- medical negligence.

The division handles files across Victoria, New South Wales, Queensland, Western Australia, South Australia, ACT and Tasmania. The Australian Operations generally provide services in the personal injury law division on a conditional, "No Win No Fee" (**NWNF**) basis.

(ii) **General law division**

The general law practice in Australia comprises:

- personal legal services, including family and relationship law, wills, estate planning, probate, estate litigation and criminal law; and
- business and specialises litigation services, including project litigation (or class action matters), commercial litigation, commercial property and industrial law.

In the general law division, the Australian Operations typically conduct work on a fee for service basis, either by reference to agreed hourly rates or by reference to agreed fixed or capped fees. However, some portion of work, including class actions, is conducted on a conditional, NWNF basis.

The Scheme Company's focus with respect to the Australian Operations is to restore earnings and cash flow through strategic repositioning, operational effectiveness and cost-out initiatives.

(b) **UK Operations**

The Scheme Company currently operates two primary businesses in the UK:

- Slater and Gordon Lawyers UK (**SGL UK**); and
- Slater Gordon Solutions (**SGS**).

As at 30 June 2017, these two businesses employed 3,070 staff across 20 office locations.

The Scheme Company entered the UK market in April 2012 through the acquisition of Russell Jones and Walker LLP and has since acquired and consolidated a number of other privately owned law firms.

The UK Operations, both in the SGL UK and SGS businesses, have materially underperformed in recent years.

The key strategic focus of the UK Operations is to improve business operations through the development and execution of turnaround initiatives that include:

- streamlining organisational design and operation;
- improving the efficiency of marketing and new business investment;
- enhancement of process and systems; and
- maintaining communication and employee engagement to drive productivity.

Details of the work performed by SGL UK and SGS are provided below.

(i) **SGL UK**

SGL UK is similar in nature to the Australian Operations as it is a consumer legal services firm comprising a personal injury law practice and a general law business.

SGL UK's personal injury law business focuses on legal claims in the consumer law market, such as road traffic accidents, employment accidents, public liability matters, clinical negligence, travel accidents and industrial diseases. The business typically focuses on 'multi track' matters, which are UK personal injury cases higher in value and complexity when compared to 'fast track' claims. In the road traffic accident and employers and public liability practice groups, private 'fast track' matters are referred to SGS Claims, part of SGS (described below).

Client intake is typically driven by marketing and business development activity. Most personal injury law matters in SGL UK are undertaken on a conditional, NWNF basis.

SGL UK's general law business comprises personal legal services and group litigation (or class action) practice groups.

These practice groups typically generate new matters through relationship management and other business development activity, as well as benefiting from brand marketing across the UK Operations. Work is generally undertaken on a fee for service basis, other than in the group litigation practice, in which some matters are undertaken on a conditional, NWNF basis.

(ii) **SGS**

SGS's business includes the claimant personal injury legal services division that was formerly part of the professional services division of Watchstone, which was acquired by the Scheme Company in May 2015 (now known as **SGS Claims**), as well as complimentary assets also acquired from Watchstone, including a motor services business (**SGS Motor**) and a medical reporting and rehabilitation business (**SGS Health**).

As previously mentioned, the SGS Claims business focuses on 'fast track' matters in the road traffic accidents, employers liability, public liability and noise induced hearing loss practice areas. The business is threatened by a number of foreshadowed regulatory reforms focused on reducing legal costs and damage claims associated with certain types of lower value personal injury matters in the UK.

4.3 Current capital structure

The Scheme Company is a limited company listed on ASX, incorporated in Victoria. As at the date of this Explanatory Statement, it has the following securities on issue:

- (a) 347,245,601 fully paid ordinary Shares, which are quoted and tradeable on ASX; and
- (b) warrants issued pursuant to the Syndicated Facility Agreement.

The warrants in the Scheme Company were issued to certain Senior Lenders in lieu of cash fees in consideration for consenting to the amendment of the Syndicated Facility Agreement (as announced to the market in June 2016). Upon exercise, the warrants entitle those Senior Lenders to be issued with Shares.

Pursuant to the Syndicated Facility Agreement, the holders of these warrants are entitled to be issued with Shares equal to 6.24% of the value uplift in the Scheme Company, which is calculated by reference to the uplift in the Scheme Company's market capitalisation. For there to be any 'value uplift', the Scheme Company's market capitalisation must exceed \$97 million. As such, Shares will only be issued to Senior Lenders pursuant to these existing warrants if the Scheme Company's market capitalisation exceeds \$97 million on the date the facilities under the Syndicated Facility Agreement (which includes the Restated SFA) are either terminated, cancelled or repaid.

5 Reasons why Senior Lenders may consider voting in favour of the Scheme

The reasons why Senior Lenders may consider voting in favour of the Scheme include:

5.1 Effecting a partial debt-for-equity swap with potential uplift in value from ownership of Shares and UK HoldCo Shares when compared to insolvency process

If the Scheme is approved, the Scheme Senior Lenders will release the Scheme Company and the Obligors from their obligations to pay a portion of the Secured Debt to the Scheme Senior Lenders. Under the Scheme, Scheme Senior Lenders will, amongst other things, receive New Shares and UK HoldCo Shares.

As security holders, the Scheme Senior Lenders may have the opportunity to realise the value of their converted debt through the sale or transfer of the New Shares and/or the UK HoldCo Shares (subject to the restrictions to be imposed under the Scheme and described elsewhere in this Explanatory Statement). The Senior Lenders may consider that the potential to recover value through the sale or transfer of the New Shares and/or the UK HoldCo Shares is an advantage when compared to the likely crystallisation of loss that would occur for some or all of the Senior Lenders on an insolvency event (as expressed in the Independent Expert's Report).

Senior Lenders may also consider that a formal insolvency process is likely to be destructive to the realisable value of the Scheme Company's business and assets (including the UK Operations), which may further diminish the recoverable value of the Secured Debt owed to them. Due to the nature of the Scheme Company's business, regulators may intervene in the event of a formal insolvency process to protect the interests of the Scheme Company's clients. Such involvement would restrict the control an administrator, liquidator or receiver has over the realisation of assets and, consequently, could further diminish the recoverable value of the Secured Debt owed to Senior Lenders.

5.2 Avoidance of uncertainties associated with insolvency

The Scheme will provide a means by which the Secured Debt owed to the Senior Lenders under the Syndicated Facility Agreement will be restructured without the appointment of a voluntary administrator, liquidator or receiver and manager to the Scheme Company or the Obligors. The Scheme will minimise disruption to the business and the diminution of value that could occur as a consequence of such appointments. This is because the Scheme enables the Scheme Company to avoid the significant reputational damage that could occur from the negative perception associated with insolvency. In addition to this, if the Scheme Company were to enter a formal insolvency process, it is likely that current employees would seek employment elsewhere and that the client base of the Scheme Company would be significantly reduced. It would be difficult in these circumstances to attract both new personnel and clients. Due to the nature and profile of the Scheme Company's business, there is also a risk of regulatory intervention in such an insolvency process.

Furthermore, any appointment of an administrator, liquidator or receiver and manager may result in certain counterparties being entitled to terminate contracts with the Scheme Company. This would be detrimental to the ongoing business of the Scheme Company and would affect the value which could be realised on a sale of the assets of the Scheme Company (including the UK Operations).

5.3 Avoidance of insolvency expenses

The legal, administrative and funding costs associated with the administration, liquidation or receivership and management of the Scheme Company would be avoided if the Scheme is approved and implemented.

5.4 Transaction certainty

Effecting a restructure by way of the Scheme will provide greater transaction certainty for the Scheme Senior Lenders and the Scheme Company (which will continue to operate its business) than could be achieved without the Scheme. In the event that the Court makes orders approving the Scheme, and those orders are lodged with ASIC, the Steps that give effect to the restructure will have the force of law.

5.5 Ability for the Scheme Company to continue to trade and raise additional funds

If the Scheme is implemented, the potential for the Scheme Company to continue to trade and operate its business is improved by a lower debt burden. Over time, and subject to the risks and qualifications outlined in **Section 8**, including those relating to exchange rates, the Scheme Company and UK HoldCo could each generate an uplift in value for all of their respective shareholders (including the Scheme Senior Lenders in their capacity as shareholders).

The decrease in overall debt may enable the Scheme Company (in respect of the Australian Operations) and UK HoldCo (in respect of the UK Operations) to explore further fundraising opportunities in the future for the purpose of business growth and expansion.

5.6 Separation of UK Operations from the Australian Operations

The Australian Operations and the UK Operations largely operate as two distinct businesses, given their geographic locations. These businesses require different strategies and possess different investment opportunities. Separating these businesses allows the separate boards of directors and management teams of the Scheme Company and UK HoldCo to focus solely on their respective businesses, and also allows each business to pursue opportunities and develop strategies, capital structures, business processes and systems that are suited to their operations.

5.7 Statutory and ASX Listing Rule protections for Shareholders

As the Scheme Company is a listed public company, its Shareholders will have certain statutory and ASX Listing Rule protections, details of which are set out in **Section 7.19** and **Section 7.20**. Further, as the Shares are listed on ASX, those securities may be more readily sold or transferred by the Scheme Senior Lenders in the future when compared to both distressed debt and securities in an unlisted company.

5.8 Minority shareholder protections for shareholders of UK HoldCo

As UK HoldCo is a private company incorporated under English law and is not listed on a securities exchange, its shareholders will not have any equivalent ASX Listing Rule protections. However, shareholders will have certain statutory protections, in addition to certain shareholder protections included in the UK HoldCo Articles, details of which are set out in **Section 7.21** and **Section 10.9**.

These potential advantages must be considered in light of the potential disadvantages of the Scheme, which are discussed in **Section 6**.

Senior Lenders are encouraged to obtain independent legal, financial and taxation advice in relation to their own individual circumstances. Senior Lenders are not obliged to follow the recommendation of the Directors and may decide to vote against the Scheme, save for the Supporting Senior Lenders, all of whom have agreed to vote in favour of the Scheme under the terms of the Restructuring Support Deed.

6 Reasons why Senior Lenders may consider voting against the Scheme

The reasons why a Senior Lender may consider voting against the Scheme include:

6.1 Release of substantial portion of debt owed to Scheme Senior Lenders

As a result of implementation of the Scheme, and subject to any limitations set out in the Scheme, the Scheme Senior Lenders will release the Scheme Company and the Obligors from their obligation to pay, or guarantee to pay, \$119.2 million and £379.8 million (plus any additional amounts of interest capitalised or accrued but unpaid up to and including the Implementation Date) under the Finance Documents and, following that release, will have no further right to recover those amounts as a debt from the Scheme Company or any of the Obligors.

6.2 Release of the Obligors

As a result of implementation of the Scheme, and subject to any limitations set out in the Scheme, the Obligors (including the Scheme Company) will be released from all Claims which may be made against them under the Finance Documents (except in respect of any Australian Obligor, under the Restated SFA, the Security Trust Deed, each Transaction Security granted by an Australian Obligor, the Security Trust Deed Amendment Deed or any other document entered into in connection with, or as a Step of, the Scheme).

6.3 Release of directors, officers and employees of the Obligors

As a result of implementation of the Scheme, and subject to any limitations set out in the Scheme, all current and former directors, officers and employees of the Obligors (including the Scheme Company) who sign a Released Obligor Individual Deed Poll will be released from all Claims and obligations from events that relate to the Obligors or the Scheme for the period up to and including the Implementation Date.

Senior Lenders may consider that they have a potential Claim against one or more of these individuals or Obligors, which would result in a recovery in favour of the Senior Lenders that is more favourable than the outcome under the Scheme.

6.4 Issuance of New Shares and UK HoldCo Shares

The Scheme, if implemented, will result in the Scheme Senior Lenders holding Shares in the Scheme Company and UK HoldCo Shares in UK HoldCo. The Claims of the Senior Lenders as shareholders will rank behind the Claims of any secured or unsecured creditors of the Scheme Company or UK HoldCo. As a shareholder, any returns (in the form of dividends or capital returns) are dependent on the financial performance of the Scheme Company or UK HoldCo (as applicable) and the amount which their respective boards determine should be distributed to shareholders.

6.5 Entitlement to New Shares, UK HoldCo Shares and Convertible Notes

The number of New Shares and UK HoldCo Shares issued to Scheme Senior Lenders will depend on each Scheme Senior Lender's commitments (if any) under the New Super Senior Facilities and under the Super Senior Incremental Facilities. If a Scheme Senior Lender did not participate in the Super Senior Incremental Facilities and will not be participating in the New Super Senior Facilities in its Relevant Proportion, then it will be issued a smaller number of New Shares and UK HoldCo Shares. In addition, the number of Convertible Notes issued to each Scheme Senior Lender will also depend upon the commitment that Scheme Senior Lender made (if any) under the New Super Senior Facilities. If a Scheme Senior Lender did not participate in the New Super Senior Facilities then it will be entitled to a smaller number of Convertible Notes than a Scheme Senior Lender that elected to participate in the New Super Senior Facilities.

6.6 Revised terms for the Restated SFA

Following implementation of the Scheme, the outstanding Secured Debt (plus any additional amounts of interest capitalised or accrued but unpaid up to and including the Implementation Date) owed by the Scheme Company will be refinanced by the provision of the Restated SFA to be made available under the SFA Facility with an aggregate amount owing to Scheme Senior Lenders of \$60 million post-implementation of the Scheme. The SFA Facility will rank behind the New AUD Super Senior Facility and will be offered on substantially the same terms as the Senior Facilities other than in respect of:

- (a) interest, which will accrue at a rate equal to the base rate plus 2% payment in kind (**PIK**);
- (b) the deletion of all financial covenants;
- (c) the maturity date, which will be 5 years after the Effective Date; and
- (d) Senior Lenders' recourse, which will be limited to the Australian Obligors only.

6.7 Convertible Notes

Under the Convertible Note Deed, the redemption of the Convertible Notes will be limited to the Watchstone Proceeds exceeding the Watchstone Entitlement Amount and certain other proceeds received by UK Obligors. In the case of the Watchstone Proceeds, any such proceeds received by a UK Obligor must be applied towards payment of the Watchstone Entitlement Amount and/or repayment of the New GBP Super Senior Facility in accordance with their own terms ahead of repaying the Convertible Notes.

In respect of other proceeds received by UK Obligors, the Claims of the Scheme Senior Lenders as holders of Convertible Notes will rank behind the Claims of other secured creditors, including:

- (a) the Scheme Company in respect of the Watchstone Proceeds up to the Watchstone Entitlement Amount;
- (b) the Scheme Senior Lenders who participated in the New GBP Super Senior Facility; and
- (c) the lenders under the Transactional Facilities.

As such, there is no guarantee that any Watchstone Proceeds received and other amounts payable by the UK Obligors towards mandatory redemption of the Convertible Notes will equal the aggregate face value of the Convertible Notes.

For details of the circumstances in which the Convertible Notes can be converted by S&G UK, and the terms of the Convertible Note Deed, refer to **Section 7.9(b)**.

6.8 Voluntary escrow and stapling arrangements

As set out in **Section 7.22**, under the Scheme, each Scheme Senior Lender and:

- (a) the Scheme Company will execute and enter into a Voluntary Escrow Deed that will restrict that Scheme Senior Lender from disposing of their New Shares, their participation in the SFA Facility and participation in the New AUD Super Senior Facility (if any); and
- (b) each of UK HoldCo and S&G UK will execute and enter into a Voluntary Escrow Deed that will restrict that Scheme Senior Lender from disposing of their UK HoldCo Shares, Convertible Notes and participation in the New GBP Super Senior Facility (if any),

except in the circumstances permitted under the Voluntary Escrow Deeds.

In addition, as set out in **Section 10.9**, the UK HoldCo Articles will contain provisions which govern a UK HoldCo shareholder's ability to transfer its UK HoldCo Shares, and the circumstances in which UK HoldCo shareholders may be required to sell their UK HoldCo Shares.

6.9 Scheme Company's business and UK Operations

There are risks associated with holding equity securities in the Scheme Company and UK HoldCo, as set out in **Section 8** of this Explanatory Statement. No assurance can be given in respect of the future performance or prospects of the Scheme Company, UK HoldCo, the value of, or return on, Shares or UK HoldCo Shares, or the ability of any shareholder to sell their Shares or UK HoldCo Shares in the future.

6.10 Change of control

There may be some counterparties to material contracts with the Scheme Company or other Group Entities who could have rights to terminate those contracts as a result of a change of control of the Scheme Company or a transfer of the UK Operations to UK HoldCo. The Scheme Company is in the process of seeking third party consents for a number of material contracts that have been identified for the purposes of satisfying one of the condition precedents to Scheme, described in **Section 7.2(l)** of this Explanatory Statement.

6.11 Chapter 6 of the Corporations Act will impose some restrictions

The Scheme Company is an ASX-listed public company with more than 50 members and, as such, is subject to Chapter 6 of the Corporations Act. Chapter 6 imposes certain restrictions on the acquisitions of "relevant interests" in Shares. These include the following:

- (a) a person cannot acquire a relevant interest in Shares if, because of that acquisition, the person's (or another person's) voting power in the Scheme Company increases:
 - (i) from 20% or below to more than 20%; or
 - (ii) from a starting point that is above 20% and below 90%,
other than in ways permitted by the Corporations Act (the **Takeovers Prohibition**);
- (b) disposing of Shares, where the proposed acquirer would acquire those Shares in breach of the Takeovers Prohibition; and
- (c) becoming associated with other Shareholders, in relation to matters such as voting Shares and determining Board appointments to the Scheme Company, where the aggregated shareholdings of the associated Shareholders would breach the Takeovers Prohibition.

A "relevant interest" under the Corporations Act is a broad concept. Generally speaking, a person will have a relevant interest in securities where they are the holder of the securities, where they can exercise or control the voting rights attached to those securities or dispose of, or control the disposal of, those securities.

In the context of the Takeovers Prohibition, a person's "voting power" in the Scheme Company is calculated by aggregating the number of Shares in which that person has a relevant interest with the number of Shares in which each person who is an "associate" of that person has a relevant interest. Generally speaking, two or more persons will be taken to be associates in relation to the Scheme Company if:

- (a) they are bodies corporate belonging to the same corporate group;

- (b) they have entered into an agreement, arrangement or understanding for the purpose of controlling or influencing the Scheme Company's board composition or the conduct of the Scheme Company's affairs; or
- (c) they are acting, or proposing to act, "in concert" in relation to the Scheme Company's affairs.

While the acquisition of the New Shares by the Scheme Senior Lenders pursuant to the Scheme, and the acquisition of any relevant interest through entry into the Voluntary Escrow Deeds under the Scheme, fall within an exception to the Takeovers Prohibition (see item 17 of section 611 of the Corporations Act), the restrictions and other legal considerations outlined above will apply in respect of any increases to the voting power of any such person following implementation of the Scheme.

Furthermore, as a Shareholder, a Scheme Senior Lender will be subject to certain ongoing notification requirements under the Corporations Act. For example, a Scheme Senior Lender must make the notifications described below:

- (a) in circumstances where they (together with their associates) have relevant interests in voting Shares of the Scheme Company or interests representing 5% or more of the total votes of the Scheme Company (or if the person has made a takeover bid for voting Shares or interests in the Scheme Company) (a **Substantial Holding**), by lodging an ASIC Form 603 "Notice of Initial Substantial Shareholder" with the Scheme Company and ASX;
- (b) for each 1% (or more) change in their Substantial Holding, by lodging a Form 604 "Notice of Change of Interests of Substantial Shareholder" with the Scheme Company and ASIC; and
- (c) if they cease to have a Substantial Holding, by lodging a Form 605 "Notice of Ceasing to be a Substantial Shareholder" with the Scheme Company and ASX.

6.12 Insolvency

If the Scheme is not implemented, the Scheme Company will become insolvent. Senior Lenders may contemplate voting against the Scheme if they consider there is potential to receive a better return under a formal insolvency process than under the Scheme.

Senior Lenders should have regard to the opinions in the Independent Expert's Report summarised in **Section 9** in this regard.

These potential disadvantages must be considered in light of the potential advantages of the Scheme, which are discussed in **Section 5**.

Senior Lenders are encouraged to obtain independent legal, financial and taxation advice in relation to their own individual circumstances. The Senior Lenders, except those who are Supporting Senior Lenders, are not obliged to follow the recommendation of the Scheme Company and may decide to vote against the Scheme.

7 Description of Scheme and debt restructure

7.1 Overview of the outcomes of the Scheme

The Scheme, if implemented, will give effect to the following:

- (a) a partial compromise of the Secured Debt owed to the Senior Lenders by the Scheme Company and S&G UK;
- (b) a refinancing of the Super Senior Facilities by way of entry into:
 - (i) the New AUD Super Senior Facility - a \$65 million AUD denominated super senior facility made available to the Scheme Company (as borrower) under the New AUD Super Senior Subscription Agreement between (among others) the Scheme Company, each other Australian Obligor and the Participating New Super Senior Facilities Senior Lenders; and
 - (ii) the New GBP Super Senior Facility - a new GBP denominated super senior term loan facility made available to S&G UK (as borrower) under the New GBP Super Senior Facility Agreement between (among others) S&G UK, each UK Obligor and the Participating New Super Senior Facilities Senior Lenders;
- (c) a refinance of the existing Senior Facilities owed by the Scheme Company under the Syndicated Facility Agreement by way of the provision of the SFA Facility, a senior facility totalling \$60 million immediately following implementation of the Scheme, to be made available to the Scheme Company (as borrower) under the Restated SFA;
- (d) the issue of such number of Shares to Scheme Senior Lenders equivalent to 95% (in aggregate) of the Scheme Company's equity immediately following implementation of the Scheme (with each Scheme Senior Lenders' entitlement to be issued New Shares determined in accordance with the procedure described in **Section 7.11**);
- (e) the transfer of the UK Operations by the Scheme Company to UK HoldCo (to be effected by way of the transfer of all the shares in S&G UK and Walker Smith Way to UK HoldCo), which will be wholly owned by the Scheme Senior Lenders following implementation of the Scheme (with each Scheme Senior Lenders' entitlement to be issued UK HoldCo Shares determined in accordance with the procedure described in **Section 7.11**);
- (f) the issue of the Convertible Notes by S&G UK to Scheme Senior Lenders (with each Scheme Senior Lenders' entitlement to be issued Convertible Notes determined in accordance with the procedure described in **Section 7.12**);
- (g) the limited-recourse guarantee by S&G UK of UK HoldCo's obligation to pay the Deferred Consideration to the Scheme Company in part consideration for UK HoldCo's acquisition of the S&G UK shares, and secured by way of a limited-recourse security over the Watchstone Proceeds received by S&G UK, or any of the other UK Obligors, up to the Watchstone Entitlement Amount, being \$40 million;
- (h) the endorsement by UK HoldCo of the Promissory Note issued by the Scheme Senior Lenders in favour of the Scheme Company which will then be separately endorsed by the Scheme Company in favour of the Scheme Senior Lenders and applied in repayment of amounts owing under the Restated SFA by the Scheme Company; and
- (i) the grant of the releases described in **Section 7.4**.

7.2 Steps prior to implementation of the Scheme

The implementation of the Scheme is subject to the prior satisfaction of various conditions precedent. The Conditions Precedent include those listed in clause 3.1 of the Scheme (see **Annexure B** to this Explanatory Statement).

The outstanding Conditions Precedent to the Scheme being implemented are:

(a) **Foreign investment approval**

By 8.00 am on the Second Court Date, either:

- (i) the Treasurer of the Commonwealth of Australia (or their delegate) has provided written advice or confirmation to the effect that there are no objections under the FATA to the Scheme, either unconditionally or on terms that are reasonably acceptable to the Supporting Senior Lenders; or
- (ii) the Treasurer of the Commonwealth of Australia has become precluded by the passage of time from making an order under Division 2 or Part 3 of the FATA in respect of the Scheme.

(b) **Regulatory approvals**

By 8.00 am on the Second Court Date, all regulatory approvals necessary to implement the Scheme have been provided on an unconditional basis, remain in full force and effect and have not been withdrawn, suspended or revoked.

(c) **Shareholder approval**

All necessary Shareholder resolutions are approved, or agreed to, by Shareholders at the Shareholder Meeting.

(d) **Senior Lender approval**

The Scheme is agreed to by the Senior Lenders present and voting in person or by proxy at the Scheme Meeting by the majorities required under section 411(4)(a)(i) of the Corporations Act.

(e) **Receipts**

By 8.00 am on the date of the Scheme Meeting, the Scheme Company has received cash proceeds in relation to project litigation matters substantially in accordance with budgeted quantum and timing in the period between the date of the Restructuring Support Deed and the Scheme Meeting.

(f) **Separation arrangements**

By 8.00 am on the Second Court Date, each party to the Business Separation Agreement (or similar document) in respect of the separation of the Group's Australian and UK Operations (in a form to be agreed between the Scheme Company and the Supporting Senior Lenders) has duly executed its counterpart, each of which is to be held in escrow and released in accordance with the terms of the Scheme.

(g) **Deeds Poll**

As at 8.00 am on the Second Court Date, the Scheme Administrators Deed Poll, the UK HoldCo Deed Poll and the Obligors Deed Poll have been executed by the Scheme Administrators, the Obligors and UK HoldCo respectively and continue to benefit the beneficiaries named in those Deeds Poll in accordance with their terms, and no such Deed Poll has been terminated.

(h) **No termination**

As at 8.00 am on the Second Court Date, the Restructuring Support Deed has not been terminated in accordance with its terms.

(i) **PwC Tax Opinion**

By 8.00 am on the Second Court Date, the Supporting Senior Lenders have given written notice to the Scheme Company that the PwC Tax Opinion is in a form and substance reasonably acceptable to them.

(j) **Court approvals**

(i) The Court makes the Second Court Orders in accordance with section 411(4)(b) of the Corporations Act, including with such conditions or alterations made or required by the Court under section 411(6) of the Corporations Act (which conditions or alterations (if any) do not change the substance of the Scheme, including the Steps, in any material respect).

(ii) The Shareholder Claimant Scheme is approved by the Court in accordance with section 411(4)(b) of the Corporations Act, including with such conditions or alterations made or required by the Court under section 411(6) of the Corporations Act (which conditions or alterations (if any) do not change the substance of the Scheme, including the Steps, in any material respect).

(iii) The Hall Proceeding Settlement is approved by the Court.

(k) **No restraints**

As at 8.00 am on the Second Court Date no judgment, order, decree, statute, law, ordinance, rule or regulation, or other temporary restraining order, preliminary or permanent injunction, restraint or prohibition, entered, enacted, promulgated, enforced or issued by any court or other Government Agency of competent jurisdiction, remains in effect that prohibits, materially restricts, makes illegal or restrains the implementation of the Scheme.

(l) **Material Contracts**

Before 5.00 pm on the Business Day before the Second Court Date, the Scheme Company has obtained consent from each person who is entitled to exercise any right under any provision of each Material Contract that entitles the person to terminate or modify the contract as a result of the announcement of the Scheme or implementation of the Scheme.

(m) **Authorisations**

All material authorisations required to complete the Scheme have been granted or obtained, and those authorisations have not been withdrawn, cancelled or revoked as at 8.00 am on the Second Court Date.

(n) **Instructions - Security Trustees**

As at 8.00 am on the Second Court Date, each Security Trustee has received all instructions, consents and directions that it requires from:

- (i) any Beneficiary (as defined in the Security Trust Deed); or
- (ii) any beneficiary (or person in an equivalent position who by the operation of this Scheme becomes a beneficiary) under the New UK Security Documents,

that is not a Senior Lender or a Senior Agent to enable it to perform its obligations under, and to give effect to, the Scheme in accordance with the Steps, including to execute and deliver the Deed Poll applicable to it and to perform its obligations under that Deed Poll.

(o) **Instructions - Scheme Company and S&G UK**

As at 8.00 am on the Second Court Date, the Scheme Company and S&G UK have received all consents, releases and approvals that they require from any Beneficiary (as defined in the Security Trust Deed) that is not a Senior Lender, a Security Trustee or a Senior Agent and which is required in connection with:

- (i) the release of the Scheme Company and each Australian Obligor from its obligations under the UK Ancillary Finance Documents; and
- (ii) the release of S&G UK and each UK Obligor from its obligations under the Australian Transactional Facilities Documents and any Hedging Agreements entered into by an Australian Obligor,

in each case, with effect from the Effective Date or Implementation Date (as applicable).

(p) **IP Deed**

As at 8.00 am on the Second Court Date, the IP Deed has been executed and remains in full force and effect.

(q) **Additional regulatory approvals**

As at 8.00 am on the Second Court Date, any approvals or consents, which are not otherwise described in **Section 7.2(a)** or **Section 7.2(b)** above but which are required by law or by any Government Agency to have been obtained in order to implement the Scheme, have been obtained either:

- (i) on an unconditional basis; or
- (ii) if any approval or consent under this **Section 7.2(q)** has been provided on a conditional basis, each condition to the approval or consent has either been:
 - (A) satisfied in full or waived in writing by the relevant Government Agency (as applicable); or
 - (B) accepted by each person that is a beneficiary of that approval or consent,

and remain in full force and effect and have not been withdrawn, suspended or revoked.

(r) **New Financing documents**

As at 8.00 am on the Second Court Date,

- (i) each of:
 - (A) such number of Senior Lenders whose Claims as a Senior Lender represent at least 75% of the value of all Claims held by the Senior Lenders against the Scheme Company in their capacity as Senior Lenders;
 - (B) the Scheme Company (on behalf of itself and each other Obligor); and
 - (C) the Security Trustees, the Senior Agents and/or the Note Trustee (UK),

has confirmed to the Scheme Company (which in the case of the relevant Senior Lenders will be provided by the Senior Agent (Aus) acting on the instructions of those Senior Lenders) and the Senior Agent (Aus) that each New Financing Document to which they will be a party is in final form;

- (ii) each New Money Scheme Senior Lender has:
 - (A) confirmed to the Scheme Company (which in the case of the relevant Senior Lenders will be provided by the Senior Agent (Aus) acting on the instructions of those Senior Lenders), the Senior Agent (Aus) and the Scheme Administrators (which in the case of the relevant Senior Lenders will be provided by the Senior Agent (Aus) acting on the instructions of those Senior Lenders) that it will make available to the Senior Agent (Aus) its respective New Super Senior Facilities Relevant Proportion of the New Super Senior Facilities in immediately available funds by no later than the second Business Day prior to the Implementation Date; and
 - (B) authorised the Scheme Administrators to execute and deliver the Super Senior Amendment Deed (New Facilities) and the New GBP Super Senior Facility Agreement in accordance with the Scheme; and
- (iii) the Scheme Company (acting reasonably) has formed the view that each condition precedent to financial close under the New Financing Documents will be satisfied or waived on or before the Implementation Date (other than conditions precedent that relate to this Scheme becoming Effective).

(s) **Other conditions**

Any other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to the Scheme (which conditions do not change the substance of the Scheme, including the Steps, in any material respect) have been satisfied.

(t) **Effective**

The Scheme becoming effective upon the lodgement of the Second Court Orders with ASIC.

Section 411(10) of the Corporations Act provides that the Second Court Orders approving the Scheme do not have any effect until an official copy of the orders is lodged with ASIC, and upon being so lodged, the orders take effect, or are taken to have taken effect, on and from the date of lodgement or such earlier date as the Court determines and specifies in order to approve the Scheme.

7.3 Standstill

During the standstill period which commences on and from the Effective Date up to the earlier of the completion of Steps and the Sunset Date (each inclusive), no Scheme Senior Lender may, except for the purpose of enforcing the terms of any Relevant Document or as otherwise expressly provided by the Scheme, dispose of, transfer or exercise certain of its rights under the Finance Documents (other than the New Financing Documents). The terms of the standstill are in clause 7 of the Scheme. Its purpose is to ensure that the Scheme can be implemented in an orderly manner in accordance with its terms.

If all Steps have not been completed on or before 11.59 pm on the Sunset Date, then with effect from that time, the Scheme will not be capable of implementation and the Scheme will lapse, terminate and be of no further force or effect.

7.4 Steps to implement the Scheme

The Scheme provides for the restructuring of the Secured Debt owed by the Scheme Company to the Scheme Senior Lenders, provision of additional liquidity and separation of the UK Operations to take place in 26 Steps in the sequence set out below. These

Steps are set out in full in clause 4.5 of the Scheme (which is at **Annexure B** to this Explanatory Statement). This **Section 7.4** only summarises key parts of the Steps and does not include every part of each Step. Senior Lenders should review the complete Steps in the Scheme carefully.

Where, as a result of an event failing to occur or to take effect, it is not possible to give effect to the intent and purpose of the Scheme in all material respects:

- (a) no other event referred to or contemplated by the Scheme has effect (including as a result of non-satisfaction of a condition to the event occurring, if any), and each event is deemed not to have effect; and
- (b) the Obligors, the Security Trustees, the Senior Agents, the Note Trustee (UK), the Scheme Administrators, the Released Obligor Individuals, UK HoldCo and the Scheme Senior Lenders shall do all things reasonably necessary to put each other party in the position it would have been in if none of the Steps had occurred.

Date	Step no.	Description
Effective Date	-	The Scheme Company notifies the Scheme Administrators that the Scheme has become Effective.
	-	The Scheme Administrators notify: (a) each Security Trustee, each Senior Agent and the Note Trustee (UK) of the Effective Date; and (b) each Security Trustee, each Senior Agent, the Note Trustee (UK) and the Scheme Company of the day (which must be a Business Day) on which Steps 3 to 26 (inclusive) will likely be able to be completed.
	1	Deed Polls and Scheme Senior Lender information The Scheme Administrators will execute the Scheme Senior Lender Deed Poll as attorney for the Scheme Senior Lenders. Each Obligor and the Scheme Administrators (on behalf of each Scheme Senior Lender) must give each Security Trustee, each Senior Agent and the Note Trustee (UK) all instructions, consents and directions required to perform their obligations under the Scheme. Each Security Trustee, Senior Agent and the Note Trustee (UK) executes and delivers to the Scheme Administrators the Deed Poll that is to be made by it. The Senior Agent (Aus) provides the Scheme Administrators and the Scheme Company with a table outlining as at 9.00 am on the Effective Date: (a) for each Scheme Senior Lender, their name and contact details; (b) the Aggregate Senior Amount for each Scheme Senior Lender; and (c) the Total Aggregate Senior Amount.

Calculation Date	2	Calculations The Scheme Administrators shall: (a) undertake the calculations required to: (i) issue the New Shares and New UK HoldCo Shares under the Scheme to the Scheme Senior Lenders; and (ii) determine each Scheme Senior Lenders' participation in the Super Senior Incremental Facilities and the New Super Senior Facilities; (b) provide the details of those calculations to the Scheme Company, each Security Trustee, each Senior Agent, the Note Trustee (UK), UK HoldCo and S&G UK; and (c) request each New Money Scheme Senior Lender to effect all payments required in order to meet its New Super Senior Facilities Relevant Proportion in immediately available funds by no later than the second Business Day prior to the Implementation Date.
Implementation Date	3	Appointment of New Directors The Scheme Company appoints each New Director to the Board. UK HoldCo: (a) adopts the UK HoldCo Articles; and (b) appoints each UK HoldCo Director to the UK HoldCo Board.
	4	Full release of debt owed by S&G UK Each Scheme Senior Lender, the Senior Agent (Aus) and the Security Trustee (Aus): (a) releases each Obligor from its obligation to pay and/or its guarantee to pay to any party to the Finance Documents all amounts drawn by S&G UK under the Senior Facilities; (b) waives all rights against each Obligor solely to the extent such rights arise under any Finance Document and relate to amounts drawn by S&G UK under the Senior Facilities, except for the UK Obligors in respect of any UK Ancillary Finance Documents; and (c) consents to such releases and waivers provided under Step 4.

	5	Entry into Convertible Note Deed Each party to the Convertible Note Deed executes and enters into the Convertible Note Deed. The Scheme Senior Lenders are issued with 25% of the Convertible Notes according to their Relevant Proportion and the remaining 75% of the Convertible Notes are issued to each Scheme Senior Lender according to their New Super Senior Facilities Relevant Proportion (if any).
	6	New UK Security Documents Each UK Obligor, the Note Trustee (UK) and the Security Trustee (UK) enter into the New UK Security Documents.
	7	Release of UK Obligors Each Scheme Senior Lender, the Senior Agent (Aus) and the Security Trustee (Aus) releases each UK Obligor from all Claims and obligations, and waives all rights against each UK Obligor, solely to the extent such from Claims, obligations and rights arise under any Finance Document. Each of the Senior Agent (Aus) and the Security Trustee (Aus) release each UK Obligor from its obligations under the Security Trust Deed and each other Finance Document. Each Scheme Senior Lender, the Senior Agent (Aus) and the Security Trustee (Aus) consent to the releases and waivers given under this Step 7. The releases and waivers provided under this Step 7 do not apply to any UK Obligor in respect of any UK Ancillary Finance Documents.
	8	Release of Australian Obligors Each Scheme Senior Lender, the Senior Agent (Aus) and the Security Trustee (Aus) release and waive all rights against each Australian Obligor from all Claims and obligations, solely to the extent such Claims, obligations and rights arise under any UK Ancillary Finance Document. Each of the Senior Agent (Aus) and the Security Trustee (Aus) (on behalf of itself and each beneficiary under the Security Trust Deed) release each Australian Obligor from its obligations under the Security Trust Deed solely as they relate to the UK Ancillary Finance Documents. Each of the Senior Agent (Aus) and the Security Trustee (Aus) consent to the releases and waivers provided under this Step 8.
	9	Issue of Promissory Note to UK HoldCo The Scheme Senior Lenders issue and deliver the Promissory Note to UK HoldCo in their Relevant Proportions.

	10	Tranche 1 - New UK HoldCo share issue UK HoldCo allots and issues such number of New UK HoldCo Shares equal to 20% of the total number of UK HoldCo Shares on issue immediately following implementation of the Scheme to the Scheme Senior Lenders in their Relevant Proportions.
	11	Business Separation Agreement The Business Separation Agreement is released from escrow at which time it operates in accordance with its own terms.
	12	Transfer of Walker Smith Way shares The Scheme Company transfers all shares it holds in Walker Smith Way to UK HoldCo in consideration for the payment of \$1.00 by UK HoldCo.
	13	Transfer of S&G UK shares The Scheme Company transfers all shares it holds in S&G UK to UK HoldCo in consideration for: (a) UK HoldCo endorsing the Promissory Note in favour of the Scheme Company; (b) the Deferred Consideration; and (c) the assumption by UK HoldCo of the balance of all intercompany loans payable by the Scheme Company to S&G UK as at immediately prior to the commencement of this Step 13. S&G UK will provide a limited-recourse guarantee of UK HoldCo's obligation to pay the Deferred Consideration (limited to the Watchstone Proceeds up to the Watchstone Entitlement Amount) and such obligation will be secured by the Watchstone Entitlement Security on the terms of the New UK Security Trust and Intercreditor Agreements.
	14	Endorsement of Promissory Note - UK HoldCo UK HoldCo endorses the Promissory Note in favour of, and delivers it to, the Scheme Company.
	15	Tranche 2 - New UK HoldCo Share issue In satisfaction of the Incremental Facility Commitment Fee payable in respect of the Super Senior GBP Incremental Facility, UK HoldCo allots and issues such number of New UK HoldCo Shares equal to 10% of the UK HoldCo Shares on issue immediately following implementation of the Scheme to the Participating Incremental Facilities Lenders each in their Incremental Facilities Relevant Proportion.

	16	Restated SFA The Restated SFA is executed, pursuant to which the Scheme Senior Lenders will be deemed to have made available the SFA Facility pro rata in their Relevant Proportions. The proceeds of the SFA Facility will be applied in repayment of the remaining amounts owing by the Scheme Company under facilities C, D and E of the Syndicated Facility Agreement.
	17	Endorsement of Promissory Note - Scheme Company The Scheme Company endorses the Promissory Note in favour of the Scheme Senior Lenders and delivers it to the Senior Agent (Aus). The Senior Agent (Aus) applies the value of the Promissory Note in repayment of amounts outstanding owed by the Scheme Company under the Restated SFA.
	18	Tranche 1 - New 10% Share issue In satisfaction of the Incremental Facility Commitment Fee payable in respect of the Super Senior AUD Incremental Facility, the Scheme Company allots and issues such number of New Shares equal to 10% of the Shares on issue immediately following implementation to Participating Incremental Facilities Lenders each in their Incremental Facilities Relevant Proportion.
	19	Partial release of Scheme Company debt The Scheme Senior Lenders release the Scheme Company and each other Australian Obligor from all Claims and obligations in respect of an amount owing under the SFA Facility equal to \$25.6 million and waive all rights against each Obligor solely to the extent such rights arise under any Finance Document and relate to the released amount. Each Scheme Senior Lender, the Senior Agent (Aus) and the Security Trustee (Aus) consent to the releases and waivers given under this Step 19.
	20	Tranche 2 - New 20% Share issue The Scheme Company allots and issues such number of New Shares equal to 20% of the total number of Shares on issue immediately following implementation of the Scheme to the Scheme Senior Lenders in their Relevant Proportions.

	21 Release of residual AUD-denominated debt If the aggregate amount owing under the SFA Facility is greater than \$60 million immediately following Step 19: (a) each Scheme Senior Lender, the Senior Agent (Aus) and the Security Trustee (Aus) releases and waives all rights against the Scheme Company and each Australian Obligor from all Claims and obligations in respect of any amounts owing in excess of \$60 million under the SFA Facility; and (b) each Scheme Senior Lender's New Aggregate Senior Amount will be reduced by that Scheme Senior Lender's Relevant Proportion of the amount released and recorded by the Senior Agent (Aus). Each Scheme Senior Lender, the Senior Agent (Aus) and the Security Trustee (Aus) consent to the releases and waivers under this Step 21.
	22 New Financing Documents The New Financing Documents are executed by each party to the New Financing Document (except for the Convertible Note Deed, certain New UK Security Documents and the Restated SFA which were executed under earlier Steps). Each Senior Agent confirms that each condition precedent to financial close under the New Financing Documents has been satisfied or waived. Each New Money Scheme Senior Lender will be deemed to have instructed the Scheme Administrators to distribute any funds required to be provided by that New Money Scheme Senior Lender under the New Financing Documents (on a pro rata basis) for the account of any Scheme Senior Lender who was an Original Super Senior Lender and whose pro rata participation in the super senior facilities made available under the Super Senior Subscription Agreement has been reduced when compared to that Scheme Senior Lender's New Super Senior Facilities Relevant Proportion under the New Super Senior Facilities.
	23 Releases (a) Each Scheme Senior Lender, the Security Trustee (Aus) and the Senior Agent (Aus) releases and waives all rights against each Obligor from all Claims and obligations solely to the extent that such Claims, obligations or rights arise under any Finance Document and relate to facts, matters or circumstances which existed or occurred in the period prior to the Implementation Date (other than in respect of each Transactional Facilities Document and any Hedging Agreement remaining in place following implementation of the Scheme). (b) Each Obligor releases and waives all rights against each other Obligor, each Scheme Senior Lender, the

		Security Trustee (Aus) and the Senior Agent (Aus) from all Claims and obligations solely to the extent such Claims, obligations or rights arise under any Finance Document and relate to facts, matters or circumstances which existed or occurred in the period prior to the Implementation Date (other than in respect of each Transactional Facilities Document and any Hedging Agreement that will remain in place following implementation of this Scheme). (c) Each Scheme Lender releases and waives all rights against the Security Trustee (Aus) and the Senior Agent (Aus) from all Claims and obligations solely to the extent such Claims, obligations or rights arise under any Finance Document and relate to facts, matters or circumstances which existed or occurred in the period prior to the Implementation Date (other than in respect of each Transactional Facilities Document and any Hedging Agreement that will remain in place following implementation of this Scheme). (d) Each Scheme Senior Lender, each Security Trustee, each Senior Agent, the Note Trustee (UK) and each Obligor releases each Released Obligor Individual from all Claims and obligations relating to any fact, matter, circumstance, event, conduct, action and/or omission that arose or occurred in respect of any Obligor or the Scheme at any time prior to, and including, the Implementation Date. (e) Each Scheme Senior Lender, each Security Trustee, each Senior Agent, the Note Trustee (UK), each Obligor and each Released Obligor Individual releases and waives all rights against each director of the Scheme Company and S&G UK from all Claims and obligations relating to any fact, matter, circumstance or event solely to the extent such Claims or obligations arise in connection with the actions taken by each of the Scheme Company and S&G UK in accordance with the Scheme. (f) Each Released Obligor Individual releases each Obligor from all Claims and obligations that Released Obligor Individual has or may have against any Obligor in their capacity as a current or former director or officer of that Obligor (except for Claims in relation to accrued but unpaid director fees and employee entitlements as a current or former officer of the Obligor). The above releases do not apply to the extent that the released party has engaged in fraud or bad faith in respect of the matters to which that Claim relates.

	24	Tranche 3 - New Remaining Share issue The Scheme Company allots and issues such number of New Shares equal to 65% of the total number of Shares on issue immediately following implementation of the Scheme to the Participating New Super Senior Facilities Senior Lenders each in their New Super Senior Facilities Relevant Proportions.
	25	Tranche 3 - New UK HoldCo Share issue UK HoldCo allots and issues such number of New UK HoldCo Shares equal to 70% of the total number of UK HoldCo Shares on issue immediately following implementation of the Scheme to the Participating New Super Senior Facilities Senior Lenders each in their New Super Senior Facilities Relevant Proportions.
	26	Voluntary Escrow Deeds Each Scheme Senior Lender and: (a) the Scheme Company executes and enters into a Voluntary Escrow Deed in respect of that Scheme Senior Lender's New Shares and participation in the SFA Facility and the New AUD Super Senior Facility (if any); and (b) each of UK HoldCo and S&G UK executes and enters into a Voluntary Escrow Deed in respect of that Scheme Senior Lender's UK HoldCo Shares, Convertible Notes and participation in the New GBP Super Senior Facility (if any).

7.5 Overview of the Group following the Scheme

Following implementation of the Scheme, the Scheme Company will own the Australian Operations and UK HoldCo will own the UK Operations. As such, the Australian and UK Operations will form two separate groups that are independent of one another.

As a result of their geographic locations, different regulatory environments, competitive landscapes and operating dynamics in their respective markets, the Scheme Company's Australian Operations and its UK Operations largely operate as two distinct businesses already.

The business activities of each of the Australian Operations and UK Operations respectively following the Scheme are expected to remain as described in **Section 4.2(a)** and **Section 4.2(b)**.

Separating the Australian and UK Operations allows the separate boards of directors and management teams of the Scheme Company and UK HoldCo to focus solely on their respective businesses. It will also allow each business to pursue opportunities and develop strategies, capital structures, business processes and systems that are tailored to their specific operations, in their respective markets.

The Board believes that, as the UK Operations are already largely managed as a stand-alone group, separating the businesses will assist with the Scheme Company's current turnaround strategy in Australia. The separation will enable management of the Australian Operations to focus on restoring earnings and cash flow through strategic repositioning, operational effectiveness and cost rationalisation initiatives targeted

towards the specific requirements of the Scheme Company's Australian businesses and practice groups.

The separation will also result in cost savings for the Australian Operations. The Scheme Company currently incurs group management expenses for coordinating and consolidating its international platform. These will no longer be required following the separation.

7.6 Historical and pro forma balance sheet

The balance sheet below shows the historical balance sheet for the Group (as at 30 June 2017) and the pro forma balance sheet following implementation of the Scheme for the Australian Operations and the UK Operations. The pro forma balance sheet illustrates the financial position of the Australian and UK Operations once the separation has occurred.

	Statutory Historical	Pro forma Historical Australian Group	Pro forma Historical UK Group
	\$'000	\$'000	\$'000
Current assets			
Cash and cash equivalents	33,303	8,297	25,006
Receivables	395,466	79,076	316,390
Work in progress	294,871	113,511	181,360
Current tax assets	3	-	3
Other current assets	21,144	10,764	15,579
Total current assets	744,787	211,648	538,339
Non-current assets			
Property, plant and equipment	26,555	11,219	15,336
Receivables	91,492	28,393	63,099
Work in progress	220,094	127,245	92,849
Intangible assets	13,112	-	23,112
Deferred tax assets	34,718	26,286	8,432
Other non-current assets	536	536	-
Total non-current assets	386,507	193,679	202,827
Total assets	1,131,294	405,327	741,166
Current liabilities			
Payables	418,619	47,879	347,740
Short term borrowings	466,240	1,797	-
Current tax liabilities	8,250	2,916	5,334
Other current liabilities	1,815	2	1,813
Provisions	54,532	36,189	18,343
Total current liabilities	949,456	88,783	373,230
Non-current liabilities			
Long term borrowings	314,702	103,295	84,574
Deferred tax liabilities	93,361	93,361	-
Derivative financial instruments	1,419	913	506
Provisions	21,172	9,138	12,034
Total non-current liabilities	430,654	206,707	97,114
Total liabilities	1,380,110	295,490	470,344
Net (liabilities) /assets	(248,816)	109,837	270,822
Equity			
Total equity attributable to equity holders in the Scheme Company	(248,639)	109,837	270,999
Non-controlling interest	(177)	-	(177)
Total equity	(248,816)	109,837	270,822

7.7 Senior Lenders' debt reduction

The table below illustrates the total aggregate debt owed to the Senior Lenders prior to the Scheme in respect of the Group, and following implementation of the Scheme, the amounts owed to the Scheme Senior Lenders by S&G UK and the Scheme Company respectively.

Pre-implementation of the Scheme (owed by the Group)	Post-implementation of the Scheme ⁶	
	S&G UK	Scheme Company
\$761.6 million ⁷	GBP equivalent of up to \$25 million plus the Convertible Notes.	\$125 million. ⁸

7.8 Debt arrangements for the Scheme Company from implementation

If the Scheme is implemented, the Scheme Company will have the following secured senior facilities:

(a) New AUD Super Senior Facility

- (i) **(principal amount)** the aggregate principal amount will be \$65 million;
- (ii) **(purpose)** general corporate purposes or such other purposes approved by the Scheme Senior Lenders (including any costs and expenses incurred under or in connection with the Scheme, the separation of the UK and Australian Operations or the funding of any litigation involving any Australian Obligor);
- (iii) **(maturity)** 3 years after the Effective Date;
- (iv) **(margin)** 10% PIK;
- (v) **(interest periods and payment)**
 - (A) 6 months or any such other period as agreed with the consent of Majority Super Senior Lenders (the thresholds as defined in **Section 7.8(a)(xiv)**); and
 - (B) PIK on the last day of each relevant interest period and shall be capitalised and added to the principal amount of the loan;
- (vi) **(default interest)** margin plus 2% p.a. on overdue amounts;
- (vii) **(repayment)** bullet repayment on the maturity date;
- (viii) **(voluntary prepayment)** the Scheme Company will be entitled to make voluntary prepayments (other than in respect of the mandatory prepayments) provided the Senior Agent (Aus) is given prior written notice of at least 5 Business Days. Any prepayment shall be made together with an amount equivalent to the net present value of the aggregate interest or

⁶ This reflects the debt owed to the Scheme Senior Lenders only and does not include any amounts owed under the Transactional Facilities following implementation of the Scheme, or any other debts owed by the Scheme Company. Senior Lenders should refer to **Section 2.8(b)** and **Section 3.1(c)** for further details about the Transactional Facilities.

⁷ As at 30 June 2017 and assumes an AUD:GBP exchange rate of 0.5912. Total Secured Debt of \$761.6 million comprises \$119.2 million AUD and £379.8 million GBP.

⁸ This figure comprises the Restated SFA and the total amount available under the New AUD Super Senior Facility.

fees which would have accrued on the principal amount prepaid for the period from the date of the prepayment up to the scheduled maturity date, together with any accrued and unpaid interest or fees on the amount prepaid;

- (ix) **(mandatory prepayment)**
 - (A) 100% of the net proceeds (including net of legal fees and expenses) received by an Australian Obligor in connection with all asset sales or disposals made by an Australian Obligor must be applied in mandatory prepayment of the New AUD Super Senior Facility unless otherwise notified by the Senior Agent (Aus);
 - (B) 100% of the Watchstone Proceeds received by the Scheme Company in respect of the Deferred Consideration; and
 - (C) to the extent there is a surplus of proceeds after being applied in accordance with paragraphs (A) and (B) above, any such proceeds shall be applied as a mandatory prepayment of the SFA Facility;
- (x) **(review events)** customary for facilities of this nature, including but not limited to:
 - (A) **(de-listing)**: suspension of the Shares from the ASX for a continuous period of more than 10 Business Days or de-listing; and
 - (B) **(accounting methodology)**: the Scheme Company failing to notify the Senior Agent (Aus) in writing of any changes to the accounting measurement methodology (other than underlying assumptions) used for the preparation of its financial accounts including with respect to the calculation of work-in-progress.

Following the occurrence of a review event, the Scheme Company and the Senior Agent (Aus) (acting on the instructions of the Majority Super Senior Lenders (the thresholds as defined in **Section 7.8(a)(xiv)**)) will negotiate in good faith for a period of no less than 30 days (**Review Period**) with respect to the continuation of the New AUD Super Senior Facility (including any required amendments). If, following the Review Period, the Scheme Company and the Senior Agent (Aus) have not agreed the basis on which the New AUD Super Senior Facility will continue to be provided, then the Senior Agent (Aus) may notify the Scheme Company that it is required to repay the New AUD Super Senior Facility in full (together with all accrued interest) within 90 days from the date of receipt of such notice by the Scheme Company;

- (xi) **(guarantors)** each Australian Obligor;
- (xii) **(obligors)** the Scheme Company and each Australian Obligor;
- (xiii) **(security)** same as the existing Transaction Security granted by the Australian Obligor to secure amounts owing under the Syndicated Facility Agreement;
- (xiv) **(Majority Super Senior Lender thresholds)**
 - (A) in respect of any release of any security or guarantee - Senior Lenders under the New AUD Super Senior Facility who together hold more than 75% of the total aggregate amount of all outstanding New Super Senior Facilities commitments at that time; and

- (B) in respect of all other matters - Senior Lenders under the New Super Senior Facilities who: (a) hold more than 66 ⅔% of the total outstanding New Super Senior Facilities commitments at that time; and (b) if there are two or more unaffiliated Senior Lenders, at least two unaffiliated Senior Lenders by number;
- (xv) **(financial covenant)** the Scheme Company must ensure that the Australian Obligors have available cash of at least \$2.5 million (or its equivalent), tested at the end of each calendar month (on an actual basis until the maturity date);
- (xvi) **(gross up tax and indirect tax)** consistent with the existing Super Senior Subscription Agreement, the Scheme Company will be required to pay any additional tax gross-up amounts where required by law to do so;
- (xvii) **(other terms)** customary for a facility of this nature; and
- (xviii) **(documentation)** New AUD Facility Agreement, Security Trust Deed Amendment Deed and the New Australian Intercreditor Agreement.

(b) **SFA Facility**

- (i) **(principal amount)** principal amount totalling \$60 million post-implementation of the Scheme (to be made available via a new facility F under the Syndicated Facility Agreement and replacing any amounts owing by the Scheme Company under the existing facility C, facility D and facility E tranches of the Syndicated Facility Agreement);
- (ii) **(purpose)** to refinance certain amounts owing by the Scheme Company under the Syndicated Facility Agreement;
- (iii) **(maturity)** 5 years after the Effective Date;
- (iv) **(margin)** as per the Syndicated Facility Agreement with a margin of 2% PIK with any interest payments being subordinated to the New AUD Super Senior Facility and capitalised and added to the principal amount of the loan to which the interest relates until all amounts owing under the New AUD Super Senior Facility have been fully and finally discharged;
- (v) **(default interest)** margin plus 2% p.a. on overdue amounts;
- (vi) **(repayment)** bullet repayment on the maturity date;
- (vii) **(mandatory prepayment)** refer to the mandatory prepayment terms for the New AUD Super Senior Facility;
- (viii) **(voluntary prepayment)** the Scheme Company will be entitled to make voluntary prepayments (other than in respect of the mandatory prepayments) provided the Senior Agent (Aus) is given prior written notice of at least 5 Business Days;
- (ix) **(security)** same as existing security granted by the Australian Obligors to secure amounts owing under the Syndicated Facility Agreement;
- (x) **(ranking)** principal repayments subordinated to repayment of the New AUD Super Senior Facility until all amounts owing under the New AUD Super Senior Facility have been fully and finally discharged;
- (xi) **(Majority Super Senior Lender thresholds)** as per the Syndicated Facility Agreement, being Senior Lenders who hold more than 66 ⅔% of the total outstanding New Super Senior Facilities commitments at that time;
- (xii) **(other terms)** as per the Syndicated Facility Agreement but with the deletion of all financial covenants; and

- (xiii) **(documentation)** Restated SFA, Security Trust Deed Amendment Deed, Recognition Certificate and the New Australian Intercreditor Agreement.

(c) **Intercreditor principles for Australian Obligors**

The intercreditor provisions currently contained in the Security Trust Deed will continue to apply in respect of the New AUD Super Senior Facility so that the New AUD Super Senior Facility shall rank ahead of any amounts payable under the SFA Facility in respect of payment of any proceeds from any Australian Obligors.

The Security Trust Deed and the New Australian Intercreditor Agreement will:

- (i) confirm that the aggregate of all amounts owing under the Transactional Facilities Document (as defined in the Security Trust Deed) by any Australian Obligor shall enjoy a super super senior priority position for an amount not exceeding \$10 million of enforcement proceeds received in respect of any Australian Obligor (to be reflected in the amended waterfall payment distribution provisions in the Security Trust Deed);
- (ii) confirm the super senior priority position of the New AUD Super Senior Facility;
- (iii) confirm the senior priority position of the SFA Facility;
- (iv) confirm that the Security Trustee (Aus) pursuant to the Security Trust Deed shall hold the existing securities package (other than in respect of any security provided by a UK Obligor) on trust for the Senior Lenders under the New AUD Super Senior Facility and the SFA Facility (with the Majority Super Senior Lenders (the thresholds as defined in **Sections 7.8(a)(xiv)** and **7.8(b)(xi)** respectively) controlling exercise of enforcement rights and remedies, drag-along for waivers, consents, amendments, etc. in respect of the New AUD Super Senior Facility and the SFA Facility); and
- (v) include relevant enforcement standstill periods, permitted payment regime and anti-layering provisions to be agreed.

7.9 Debt arrangements for S&G UK from implementation

If the Scheme is implemented, S&G UK (which will be wholly owned by UK HoldCo upon implementation) will have the following debt facilities:

(a) **New GBP Super Senior Facility**

- (i) **(principal amount)** the aggregate principal amount equal to the GBP denominated commitments made available under the Super Senior GBP Incremental Facility;
- (ii) **(purpose)** general corporate purposes or such other purposes approved by the Scheme Senior Lenders (including any costs and expenses incurred under or in connection with the Scheme, the separation of the UK and the Australian Operations or the funding of any litigation involving a UK Obligor);
- (iii) **(maturity)** 3 years after the Effective Date;
- (iv) **(margin)** 10% PIK;
- (v) **(interest periods and payment)**
 - (A) 6 months or any such other period as agreed with the consent of Majority Super Senior Lenders (the thresholds as defined in **Section 7.8(a)(xiv)**); and

- (B) PIK on the last day of each relevant interest period and shall be capitalised and added to the principal amount of the loan;
- (vi) **(default interest)** margin plus 2% p.a. on overdue amounts;
- (vii) **(repayment)** bullet repayment on the maturity date;
- (viii) **(voluntary prepayment)** S&G UK will be entitled to make voluntary prepayments (other than in respect of the mandatory prepayments) provided the Senior Agent (UK) is given prior written notice of at least 5 Business Days. Any prepayment shall be made together with an amount equivalent to the net present value of the aggregate interest or fees which would have accrued on the principal amount prepaid for the period from the date of the prepayment up to the scheduled maturity date, together with any accrued and unpaid interest or fees on the amount prepaid;
- (ix) **(mandatory prepayment)**
 - (A) other than to the extent applied as a payment out of the Watchstone Proceeds of up to the Watchstone Entitlement Amount, 100% of all net cash proceeds received from Watchstone (or any of its related entities or associates) in connection with the Watchstone Sale Agreement, including the release of any Watchstone Proceeds or proceeds of any other litigation or claim received by any UK Obligor;
 - (B) 100% of all net cash proceeds received by a UK Obligor in respect of any asset sales or disposals, other than any proceeds not exceeding £3 million in aggregate in any fiscal year and which have been applied towards the acquisition of replacement assets or capital expenditure within 180 days of receipt; and
 - (C) 100% of all insurance proceeds received by a UK Obligor under any UK Obligor's insurance policy, other than any proceeds not exceeding £3 million in aggregate in any fiscal year and which have been applied towards the acquisition of replacement assets or capital expenditure within 180 days of receipt,

must be applied in mandatory prepayment of the New GBP Super Senior Facility unless otherwise notified by the Senior Agent (UK) (acting on the instructions of the Majority Super Senior Lenders (the thresholds as defined in **Section 7.8(a)(xiv))**);
- (x) **(guarantors)** UK HoldCo and each UK Obligor;
- (xi) **(obligors)** S&G UK, UK HoldCo and the UK Obligors;
- (xii) **(security)** new security to be granted by the UK Obligors under the New UK Security Documents in favour of the Scheme Senior Lenders under the New GBP Super Senior Facility on substantially the same terms as the existing security granted by the UK Obligors to secure amounts owing under the Syndicated Facility Agreement;
- (xiii) **(financial covenant)** S&G UK must ensure that the UK Obligors have available cash of at least £2.5 million (or its equivalent), tested at the end of each calendar month (on an actual basis until the maturity date);
- (xiv) **(other terms)** customary for a facility of this nature; and
- (xv) **(documentation)** New GBP Facility Agreement, the New UK Security Documents and the New UK Security Trust and Intercreditor Agreements.

(b) **Convertible Note Deed**

- (i) **(principal amount)** aggregate principal amount of £250 million (subject to rounding) with each Convertible Note having a face value of £1;
- (ii) **(entitlement)**
 - (A) each Scheme Senior Lender will receive, in its Relevant Proportion, its share of 25% of the Convertible Notes issued by S&G UK; and
 - (B) Participating New Super Senior Facilities Senior Lenders will receive 75% of the Convertible Notes each in their New Super Senior Facilities Relevant Proportion;
- (iii) **(purpose)** to restate certain amounts owing by S&G UK under the Syndicated Facility Agreement;
- (iv) **(conversion date)** the conversion date shall be the later of:
 - (A) 5 years after the Effective Date (being the final maturity date); and
 - (B) the date on which S&G UK, by written notice to the Note Trustee (UK), elects to convert all (but not part) of the outstanding Convertible Notes and the Note Trustee (UK) is satisfied (acting on the instructions of the Majority Noteholders (as defined in **Section 7.9(b)(viii)**)) that all of S&G UK's Claims against Watchstone, and any other person in relation to the Watchstone Sale Agreement and/or the Watchstone Acquisition, have been finally judicially determined or settled and the Watchstone Proceeds have been fully and finally paid to S&G UK or any of the Obligors (or their nominee),

provided that if paragraph (B) does not occur prior to the maturity date of the Convertible Note Deed, S&G UK may, by written notice to the Note Trustee (UK), elect to convert all (but not part) of the outstanding Convertible Notes on the maturity date of the Convertible Note Deed.

- (v) **(conversion)**
 - (A) on the conversion date (described in **paragraph 7.9(b)(iv)** above), the Convertible Notes on issue at that time will be converted, at S&G UK's election, (and, if applicable, subject to the consent of the Note Trustee (UK) acting on the instructions of the Majority Noteholders (refer to **paragraph 7.9(b)(viii)** below) into £1 redeemable preference shares in S&G UK with a floating rate return at a fixed ratio of 1 preference share per £1 of debt outstanding (rounded down to the nearest whole number of preference shares in S&G UK); and
 - (B) each Noteholder will mandate that all of the S&G UK preference shares allocated to it on the maturity date will be issued directly to UK HoldCo, in exchange for an issue by UK HoldCo to each Noteholder of 1 UK HoldCo Share for every 100,000 preference shares (rounded up to the nearest whole number of UK HoldCo Shares and adjusted for any reorganisation of capital),

together, the "**Convertible Note Conversion Mechanics**";

- (vi) **(mandatory redemption)** subject to the intercreditor principles (see **Section 7.9(c)**) and the Watchstone Entitlement Security, S&G UK must apply each of the following proceeds when received as a mandatory redemption of all Convertible Notes on issue at that time on a pro rata

basis by reference to outstanding secured commitments of Noteholders under the Convertible Note Deed at that time:

- (A) 100% of all Watchstone Proceeds or net cash proceeds of any other litigation or Claim received by any UK Obligor, other than those proceeds which are to be applied towards the payment of the Watchstone Entitlement Security or repayment of the New GBP Super Senior Facility;
 - (B) 100% of all net cash proceeds received from a UK Obligor in respect of any asset sales or disposals, other than any proceeds not exceeding £3 million in any fiscal year, and which have been applied towards the acquisition of replacement assets, capital expenditure within 180 days of receipt or towards the repayment or redemption of the New GBP Super Senior Facility; and
 - (C) 100% of all insurance proceeds received by a UK Obligor under the UK Obligor's insurance policy other than any proceeds not exceeding £3 million in any fiscal year and which have been applied towards the acquisition of replacement assets, capital expenditure within 180 days of receipt or towards the repayment or redemption of the New GBP Super Senior Facility;
- (vii) **(final redemption)** all Convertible Notes shall be redeemed in full on the maturity date, subject to the Convertible Note Conversion Mechanics;
- (viii) **(Majority Noteholders)**
- (A) in respect of any release of any security or guarantee or any instruction to the Note Trustee (UK) to convert the Convertible Notes in accordance with the Convertible Note Conversion Mechanics - Noteholders who together hold more than 75% of total aggregate amount of all outstanding Convertible Notes on issue at that time; and
 - (B) in respect of all other matters - Noteholders who:
 - hold more than 66⅔ % of total outstanding Convertible Notes on issue at that time; and
 - if there are two or more unaffiliated Noteholders, at least two unaffiliated Senior Lenders by number;
- (ix) **(guarantors)** UK HoldCo and each UK Obligor;
- (x) **(obligors)** UK HoldCo, S&G UK and each other UK Obligor;
- (xi) **(security)** same as existing security granted by the UK Obligors to secure amounts owing under the Syndicated Facility Agreement together with new security to be granted by the UK Obligors (pursuant to the New UK Security Arrangements) for the benefit of the Noteholders on substantially the same terms as the existing security granted by the UK Obligors to secure amounts owing under the Syndicated Facility Agreement;
- (xii) **(ranking)** second ranking priority in respect of the Watchstone Proceeds and any other proceeds received by UK Obligors, ranking only behind the New GBP Super Senior Facility and payment out of the Watchstone Proceeds of up to the Watchstone Entitlement Amount;
- (xiii) **(other terms)** customary for a facility of this nature; and
- (xiv) **(documentation)** Convertible Note Deed, a paying agency agreement, the New UK Security Documents and the New UK Security Trust and Intercreditor Agreements.

(c) **Intercreditor principles for UK Obligors**

The New UK Security Trust and Intercreditor Agreements will be entered into between, among others, the Security Trustee (UK), UK HoldCo, S&G UK, each other UK Obligor, the Participating New Super Senior Facilities Senior Lenders, the Scheme Senior Lenders and the Note Trustee (UK).

The New UK Security Trust Intercreditor Agreements will:

- (i) confirm, subject to the Watchstone Entitlement Security:
 - (A) that the aggregate of all amounts owing under the transactional facilities documents (to be defined in the UK Security Trust Deed) by any UK Obligor shall enjoy a super super senior priority position for an amount not exceeding the GBP equivalent of \$5 million of enforcement proceeds received in respect of any UK Obligor;
 - (B) the New GBP Super Senior Facility shall enjoy a first ranking priority in respect of payment of any Watchstone Proceeds and any other proceeds received in respect of any UK or non-Australian Obligor; and
 - (C) the Convertible Note Deed shall enjoy a second ranking priority in respect of payment of any Watchstone Proceeds and any other proceeds received in respect of any UK or non-Australian Obligor, ranking behind the New GBP Super Senior Facility;
- (ii) include relevant enforcement standstill periods, permitted payment regime and anti-layering provisions to be agreed;
- (iii) provide for S&G UK to guarantee payment of the Deferred Consideration payable by UK HoldCo to the Scheme Company in part consideration for the acquisition of shares in S&G UK by way of the Watchstone Entitlement Security. Any Watchstone Proceeds received in payment of the Watchstone Entitlement Amount shall be applied by the Scheme Company as a mandatory prepayment under the New AUD Super Senior Facility and, to the extent proceeds remain available, as a mandatory prepayment under the SFA Facility and shall be secured by a first ranking security to be granted by S&G UK for the benefit of the Security Trustee (UK) on behalf of the Scheme Company; and
- (iv) confirm that the Majority Super Senior Lenders (the thresholds as defined in **Section 7.8(a)(xiv)**) are to control exercise of enforcement rights and remedies, drag-along for waivers, consents, amendments, etc. in respect of the New GBP Super Senior Facility and the Convertible Note Deed.

7.10 Entitlement to participate in Super Senior Incremental Facilities and New Super Senior Facilities

Pursuant to the terms of the Restructuring Support Deed, each Senior Lender has been invited to participate in the Super Senior Incremental Facilities and the New Super Senior Facilities (to refinance the Super Senior Facilities) in their Relevant Proportions.

Senior Lenders could only participate in the Super Senior Incremental Facilities if they participated in both the Super Senior AUD Incremental Facility and the Super Senior GBP Incremental Facility. Similarly, Senior Lenders could only participate in the New Super Senior Facilities if they participated in both the New AUD Super Senior Facility and the New GBP Super Senior Facility (in their Relevant Proportions).

7.11 Allocation of New Shares and UK HoldCo Shares

The total number of New Shares and UK HoldCo Shares that each Scheme Senior Lender will be issued in accordance with the Scheme depends upon the commitments made by each Scheme Senior Lender under the Super Senior Incremental Facilities and the New Super Senior Facilities.

(a) Syndicated Facility Agreement

Each Scheme Senior Lender, regardless of their participation in the Super Senior Incremental Facilities and the New Super Senior Facilities, will receive, in their Relevant Proportion:

- (i) 20% of the total number of Shares on issue immediately following implementation of the Scheme; and
- (ii) 20% of the total number of UK HoldCo Shares on issue immediately following implementation of the Scheme,

in consideration for the partial release of the Senior Facilities by each Scheme Senior Lender.

(b) Incremental Facilities

Senior Lenders who are also Participating Incremental Facilities Lenders will receive the Incremental Facility Commitment Fee, which entitles them to:

- (i) 10% of the total number of Shares on issue immediately following implementation of the Scheme; and
- (ii) 10% of the total number of UK HoldCo Shares on issue immediately following implementation of the Scheme,

each in their Incremental Facilities Relevant Proportion.

(c) New Super Senior Facilities

Scheme Senior Lenders who are Participating New Super Senior Facilities Senior Lenders will receive:

- (i) 65% of the total number of Shares on issue immediately following implementation of the Scheme; and
- (ii) 70% of the total number of UK HoldCo Shares on issue immediately following implementation of the Scheme,

each in their New Super Senior Facilities Relevant Proportion.

Based upon the commitments received by the Senior Agent (Aus) in respect of the Super Senior AUD Incremental Facility and the New AUD Super Senior Facility, the following table illustrates the number of Shares that each Scheme Senior Lender will receive if the Scheme is implemented.⁹

Scheme Senior Lender	Shares issued for participation in Super Senior AUD Incremental Facility	Shares issued in Relevant Proportions	Shares issued for participation in New AUD Super Senior Facility	Total	
				Shares	%
Anchorage	3,883,262	7,733,329	25,241,202	36,857,793	53.0%
TCA Opportunity Investments S.A.R.L.	648,808	1,292,069	4,217,247	6,158,124	8.9%
York Global Finance BDH, LLC	608,116	1,211,034	3,952,753	5,771,903	8.3%
Bank of America, N.A.	458,360	912,801	2,979,336	4,350,497	6.3%
Perpetual Corporate Trust Limited as Custodian for Metrics Credit Partners Diversified Australian Senior Loan Fund	396,148	788,909	2,574,959	3,760,016	5.4%
Burlington Loan Management DAC	333,107	663,367	2,165,195	3,161,669	4.5%
River Birch Master Fund, L.P.	301,516	600,454	1,959,850	2,861,820	4.1%
Deutsche Bank AG, London Branch	148,556	295,841	965,610	1,410,007	2.0%
Värde Investment Partners, L.P.	124,413	247,762	808,681	1,180,856	1.7%
PA View Opportunity IV Limited	50,685	100,937	329,451	481,073	0.7%
ARCM Master Fund III Ltd	-	40,375	-	40,375	0.1%
FCCD (Australia) Pty Limited		19,062	-	19,062	0.0%

⁹ The figures have been adjusted to illustrate the impact of rounding up the number of Shares issued to Scheme Senior Lenders under each Step of the Scheme.

Based upon the commitments received by the Senior Agent (Aus) in respect of the Super Senior GBP Incremental Facility and the New GBP Super Senior Facility, the following table illustrates the number of UK HoldCo Shares that each Scheme Senior Lender will receive if the Scheme is implemented, assuming that the total share capital of UK HoldCo immediately following implementation is 1 million shares.¹⁰

Scheme Senior Lender	UK HoldCo Shares issued for participation in Super Senior GBP Incremental Facility	UK HoldCo Shares issued in Relevant Proportions	UK HoldCo Shares issued for participation in New GBP Super Senior Facility	Total	
				Shares	%
Anchorage	55,851	111,224	390,954	558,029	55.8%
TCA Opportunity Investments S.A.R.L.	9,332	18,583	65,320	93,235	9.3%
York Global Finance BDH, LLC	8,747	17,418	61,223	87,388	8.7%
Bank of America, N.A.	6,593	13,129	46,146	65,868	6.6%
Perpetual Corporate Trust Limited as Custodian for Metrics Credit Partners Diversified Australian Senior Loan Fund	5,698	11,347	39,883	56,928	5.7%
Burlington Loan Management DAC	4,791	9,541	33,537	47,869	4.8%
River Birch Master Fund, L.P.	4,337	8,636	30,356	43,329	4.3%
Deutsche Bank AG, London Branch	2,137	4,255	14,957	21,349	2.1%
Värde Investment Partners, L.P.	1,790	3,564	12,526	17,880	1.8%
PA View Opportunity IV Limited	729	1,452	5,103	7,284	0.7%
ARCM Master Fund III Ltd	-	581	-	581	0.1%
FCCD (Australia) Pty Limited	-	275	-	275	0.0%

¹⁰ The figures have been adjusted to illustrate the impact of rounding up the number of New Shares issued to Scheme Senior Lenders under each Step of the Scheme.

7.12 Allocation of Convertible Notes

The number of Convertible Notes that each Scheme Senior Lender is entitled to receive pursuant to the terms of the Scheme depends upon their commitment (if any) under the New Super Senior Facilities.

All Scheme Senior Lenders are entitled to receive, in their Relevant Proportions, 25% of the Convertible Notes on issue immediately following implementation of the Scheme, in consideration for entering into the Scheme.

The Scheme Senior Lenders who are also Participating New Super Senior Facilities Senior Lenders will also be entitled to receive 75% of the Convertible Notes on issue immediately following implementation of the Scheme each in their New Super Senior Facilities Relevant Proportion.

Based upon the commitments received by the Senior Agent (Aus) in respect of the New Super Senior Facilities, the following table illustrates the number of Convertible Notes that each Scheme Senior Lender will receive if the Scheme is implemented. Each Convertible Note will have a face value of £1.00.

Scheme Senior Lender	Convertible Notes issued in Relevant Proportions	Convertible Notes issued for participation in New Super Senior Facilities	Total	
			Notes ¹¹	%
Anchorage	34,757,325	104,719,566	139,476,892	55.8%
TCA Opportunity Investments S.A.R.L.	5,807,180	17,496,323	23,303,504	9.3%
York Global Finance BDH, LLC	5,442,970	16,399,003	21,841,974	8.7%
Bank of America, N.A.	4,102,568	12,360,534	16,463,102	6.6%
Perpetual Corporate Trust Limited as Custodian for Metrics Credit Partners Diversified Australian Senior Loan Fund	3,545,738	10,682,873	14,228,612	5.7%
Burlington Loan Management DAC	2,981,489	8,982,862	11,964,351	4.8%
River Birch Master Fund, L.P.	2,698,728	8,130,937	10,829,665	4.3%
Deutsche Bank AG, London Branch	1,329,652	4,006,078	5,335,730	2.1%
Värde Investment Partners, L.P.	1,113,559	3,355,016	4,468,575	1.8%
PA View Opportunity IV Limited	453,656	1,366,809	1,820,465	0.7%

¹¹ Total column includes impact of rounding up the number of Convertible Notes to be issued to each Scheme Senior Lender (in aggregate).

Scheme Senior Lender	Convertible Notes issued in Relevant Proportions	Convertible Notes issued for participation in New Super Senior Facilities	Total	
			Notes ¹¹	%
ARCM Master Fund III Ltd	181,462	-	181,463	0.1%
FCCD (Australia) Pty Limited	85,674	-	85,674	0.0%

7.13 Promissory Note

In consideration for the issuance of 20% (in aggregate) of the UK HoldCo Shares to the Scheme Senior Lenders, the Scheme Senior Lenders will be required to issue to UK HoldCo a limited-recourse Promissory Note that, has an aggregate total value of \$40 million. The face value of the Promissory Note issued by the Scheme Senior Lenders will be determined according to each Scheme Senior Lender's Relevant Proportion. UK HoldCo will then endorse the Promissory Note in favour of the Scheme Company as partial consideration for the transfer of the shares in S&G UK to UK HoldCo. The Scheme Company will then endorse the Promissory Note in favour of the Scheme Senior Lenders (in their Relevant Proportions) as repayment of \$40 million of the debt owed to the Scheme Senior Lenders by the Scheme Company under the Restated SFA.

7.14 Outcomes for Scheme Senior Lenders

If the Scheme is implemented, Scheme Senior Lenders:

- (a) will be issued with Shares according to their Relevant Proportions in an amount equal to 20% of the total number of Shares on issue immediately following implementation of the Scheme;
- (b) will be issued with UK HoldCo Shares in their Relevant Proportions in an amount equal to 20% of the total number of UK HoldCo Shares on issue immediately following implementation of the Scheme;
- (c) will be issued with Convertible Notes in their Relevant Proportions in an amount equal to 25% of the total number of Convertible Notes on issue immediately following implementation of the Scheme;
- (d) will issue, in their Relevant Proportions, the Promissory Note to UK HoldCo;
- (e) will retain a share of the SFA Facility each in their Relevant Proportion;
- (f) who elected to participate in the Super Senior Incremental Facilities will receive:
 - (i) 10% of the total number of Shares on issue immediately following implementation of the Scheme; and
 - (ii) 10% of the total number of UK HoldCo Shares on issue immediately following implementation of the Scheme;
each in their Incremental Facilities Relevant Proportion;
- (g) who elected to participate in the New Super Senior Facilities will receive:
 - (i) 65% of the total number of Shares on issue immediately following implementation of the Scheme;
 - (ii) 70% of the total number of UK HoldCo Shares on issue immediately following implementation of the Scheme; and

- (iii) 75% of the Convertible Notes owing by S&G UK in a principal amount of £187.5 million,
- each in their New Super Senior Facilities Relevant Proportion;
- (h) release each Obligor (including the Scheme Company and S&G UK) from its obligation to pay, or guarantee to pay, in aggregate, \$119.2 million and £379.8 million (plus any additional amounts of interest capitalised or accrued but unpaid up to and including the Implementation Date) under the Finance Documents (excluding amounts owing under the Restated SFA);
 - (i) be owed their commitment in the New Super Senior Facilities;
 - (j) provide the releases described in **Section 7.4** in Step 4, Step 7, Step 8, Step 19, Step 21 and Step 23 of the Scheme; and
 - (k) under the Scheme, will execute and enter into two Voluntary Escrow Deeds, being with each of:
 - (i) the Scheme Company, that will restrict the Scheme Senior Lenders from disposing of their New Shares and any debt instruments relating to indebtedness owing to them by the Scheme Company and/or any other Australian Obligor; and
 - (ii) UK HoldCo and S&G UK, that will restrict the Scheme Senior Lenders from disposing of their UK HoldCo Shares, Convertible Notes and any other debt instruments relating to indebtedness owing to them by S&G UK and/or any other UK Obligors,

except in the circumstances permitted under the Voluntary Escrow Deeds.

7.15 Outcomes for the Scheme Company

If the Scheme is implemented, the outcomes for the Scheme Company are:

- (a) under the Scheme:
 - (i) the principal debt owed by the Scheme Company to the Scheme Senior Lenders under the Syndicated Facility Agreement will be reduced from \$119.2 million and £379.8 million (as at 30 June 2017) (plus any additional amounts of interest capitalised or accrued but unpaid up to and including the Implementation Date) to \$60 million following completion of the Steps;
 - (ii) the Syndicated Facility Agreement will be refinanced as the Restated SFA;
 - (iii) the Scheme Company will enter into the New AUD Super Senior Facility and the other New Australian Financing Documents;
 - (iv) the Scheme Company will issue New Shares to the Scheme Senior Lenders;
 - (v) it will transfer the shares it holds in Walker Smith Way to UK HoldCo in consideration for the payment of \$1.00 by UK HoldCo;
 - (vi) it will transfer the shares it holds in S&G UK to UK HoldCo (and will cease to have any ownership of the UK Operations) in consideration for:
 - (A) UK HoldCo endorsing the Promissory Note in favour of the Scheme Company;
 - (B) the Deferred Consideration; and
 - (C) the assumption by UK HoldCo of the balance of all intercompany loans payable by the Scheme Company to S&G UK as at

immediately prior to the commencement of Step 13 of the Scheme;

- (vii) the Scheme Company will endorse the Promissory Note received from UK HoldCo in partial consideration for the transfer of shares in S&G UK in favour of the Scheme Senior Lenders, who will apply the value of the Promissory Note in repayment of outstanding amounts owed by the Scheme Company under the Restated SFA and will record that each Scheme Senior Lender's New Aggregate Senior Amount is reduced by that Scheme Senior Lender's Relevant Proportion of the Promissory Note;
 - (viii) the Scheme Company will be entitled to receive deferred payments from UK HoldCo of up to \$40 million (contingent upon receipt of Watchstone Proceeds by S&G UK or any other member of the UK Group) as part of the consideration for acquiring S&G UK, and which will be limited-recourse to, and guaranteed and secured by S&G UK over (on a limited-recourse basis), the Watchstone Proceeds up to the Watchstone Entitlement Amount;
 - (ix) the Scheme Company will take all actions necessary to cause the appointment of each New Director to its Board (subject to receiving a signed consent to act from that New Director);
 - (x) the Scheme Company will provide the releases set out in Step 23 of the Scheme;
 - (xi) the Scheme Company will benefit from the releases set out in Step 4, Step 8, Step 19, Step 21 and Step 23 of the Scheme and certain Deeds Poll; and
 - (xii) the Scheme Company will enter into Voluntary Escrow Deeds with each of the Scheme Senior Lenders; and
- (b) in accordance with the terms of the Restructuring Support Deed, the Scheme Company will:
- (i) procure that, with effect on and from the Implementation Date (if nominations are received by such date or as soon as reasonably practicable following each nomination if received after the Implementation Date), the Board will have the composition as outlined in **Section 3.5** (if it does not have such composition following implementation of the Steps); and
 - (ii) procure that each Retiring Director resigns from the Board:
 - (A) by notice in writing which acknowledges that such Retiring Director has no outstanding Claims against any Group Entity as at the date of the resignation; and
 - (B) provided that such Retiring Director will resign in circumstances where his or her resignation will not result in there being fewer than three directors on the Board immediately following implementation of the Scheme; and
 - (iii) enter into a deed of access, indemnity and insurance with each New Director appointed consistent with **Section 3.5** under which that New Director receives, among other things, the benefit of any relevant indemnities given by, and insurance policies maintained by, the Group.

7.16 Outcomes for Obligors

If the Scheme is implemented, the outcomes for the Obligors are:

- (a) each Obligor will be bound by the Scheme;
- (b) S&G UK will issue the Convertible Notes to the Scheme Senior Lenders, which will be guaranteed by and secured over the assets of UK HoldCo and each UK Obligor;
- (c) shares in S&G UK and Walker Smith Way will be transferred to UK HoldCo;
- (d) S&G UK will guarantee UK HoldCo's obligation to make deferred payments of up to \$40 million to the Scheme Company (contingent upon receipt of Watchstone Proceeds) and provide security (on a limited-recourse basis) over the Watchstone Proceeds up to the Watchstone Entitlement Amount;
- (e) the Scheme Company, and the other Australian Obligors, will enter into the New Australian Financing Documents;
- (f) S&G UK, the other UK Obligors and UK HoldCo will enter into the New UK Financing Documents;
- (g) the guarantee liabilities of each Australian Obligor owed to the Scheme Senior Lenders under the Finance Documents will be reduced from \$119.2 million and £379.8 million (as at 30 June 2017) (plus any additional amounts of interest capitalised or accrued but unpaid up to and including the Implementation Date) to \$60 million;
- (h) each of S&G UK and the other UK Obligors will be released from their obligation to pay, or guarantee to pay, \$119.2 million and £379.8 million (as at 30 June 2017) (plus any additional amounts of interest capitalised or accrued but unpaid up to and including the Implementation Date) to the Scheme Senior Lenders under the Finance Documents;
- (i) each Obligor will provide the releases set out in Step 23 of the Scheme; and
- (j) each Obligor will receive the benefit of the releases set out in Step 4, Step 7, Step 8, Step 19, Step 21 and Step 23 (as applicable) of the Scheme.

7.17 Outcomes for UK HoldCo

If the Scheme is implemented, the outcomes for UK HoldCo are:

- (a) it will be bound by the Scheme;
- (b) it will issue the UK HoldCo Shares to the Scheme Senior Lenders;
- (c) it will acquire all of the shares in Walker Smith Way in consideration of payment of \$1.00 to the Scheme Company;
- (d) it will acquire all of the shares in S&G UK (and, as a result, will acquire full ownership of the UK Operations) in consideration for, among other things, a deferred payment obligation of up to \$40 million which will be limited-recourse to, and guaranteed and secured by S&G UK over (on a limited-recourse basis), the Watchstone Proceeds up to the Watchstone Entitlement Amount;
- (e) it will endorse and deliver the Promissory Note received from the Scheme Senior Lenders in favour of the Scheme Company;
- (f) it will guarantee the obligations of S&G UK in respect of the Convertible Notes and the New GBP Super Senior Facility;
- (g) it will adopt the UK HoldCo Articles and will appoint each UK HoldCo Director to the UK HoldCo Board (subject to receiving a signed consent to act from each UK HoldCo Director);

- (h) it will be obligated to pay the Deferred Consideration (to the extent received by it, or one of its Subsidiaries) to the Scheme Company as partial consideration for the acquisition of all S&G UK's shares;
- (i) it will assume the balance of all intercompany loans payable by the Scheme Company to S&G UK as at immediately prior to the commencement of Step 13 of the Scheme; and
- (j) it will enter into the New UK Security Documents.

7.18 Outcome for Senior Agents, Security Trustees and Note Trustee (UK)

If the Scheme is implemented, the outcomes for the Senior Agents, the Security Trustees and the Note Trustee (UK) are:

- (a) the Senior Agents, the Security Trustees and the Note Trustee (UK), by their respective Deeds Poll, will have agreed to perform the actions attributed to them under the Scheme and be bound by the Scheme. Each of the Senior Agents, the Security Trustees and the Note Trustee (UK) will instruct the Scheme Administrators (on behalf of the Scheme Senior Lenders) to execute their respective Deed Poll on the Effective Date;
- (b) without limitation, the Senior Agents, the Security Trustees and the Note Trustee (UK) will be required to:
 - (i) take all actions required of them under the Scheme; and
 - (ii) execute their respective Deed Poll; and
- (c) the Senior Agents, the Security Trustees and the Note Trustee (UK) will provide and receive the benefit of the releases in Step 23 of the Scheme; and
- (d) the Senior Agent (Aus) and the Security Trustee (Aus) will continue in their respective capacity as agent and security trustee under the Restated SFA and associated documents.

7.19 Summary of statutory shareholder rights and protections that apply to the Scheme Company

The Corporations Act affords a number of rights to members, and includes a number of minority shareholder protections. These rights and protections include, but are not limited to, the following:

- (a) **Right to request a general meeting of members:** Section 249D of the Corporations Act provides that the Directors must call and arrange to hold a general meeting of members on the valid request of members with at least five per cent of the votes that may be cast at the general meeting.
- (b) **Right to requisition a general meeting of members:** Section 249F of the Corporations Act provides that members with at least 5% of the votes that may be cast at a general meeting of a company may call, and arrange to hold, a general meeting.
- (c) **Right to propose resolutions at a general meeting of members:** Section 249N of the Corporations Act provides that the following may give a company notice of a resolution that they propose to move at a general meeting:
 - (i) members with at least 5% of the votes that may be cast at the general meeting; or
 - (ii) at least 100 members who are entitled to vote at the general meeting.

The notice must be in writing, set out the wording of the proposed resolution and be signed by the members proposing to move the resolution. The resolution must

be considered at the next general meeting that occurs more than 2 months after the notice is given.

- (d) **Information access rights:** The Corporations Act affords Shareholders rights to access certain information about the Scheme Company. These include the right to inspect the Scheme Company's register of members and minute books for members' meetings.
- (e) **Ability to seek relief for "oppressive conduct":** Part 2F.1 of the Corporations Act provides for a "statutory oppression" remedy for members, which provides the court with broad powers to grant relief to a member if the conduct of the company is either:
 - (i) contrary to the interests of the members as a whole; or
 - (ii) oppressive to, unfairly prejudicial to, or unfairly discriminatory against, a member (or members) whether in that capacity or another capacity.

Examples of oppressive or unfair conduct can include:

- (i) an issue of shares by the directors to the disadvantage of a minority;
- (ii) improper diversion of business opportunities; and
- (iii) denial of access to information.

The orders a court can make on the finding of oppressive conduct or unfair conduct are broad, and may include:

- (i) that the company be wound up;
- (ii) that the constitution be amended or repealed;
- (iii) regulating the conduct of the company's affairs in the future; and
- (iv) authorising a member to institute, prosecute, defend or discontinue specified proceedings in the name and on behalf of the company (e.g. by way of statutory derivative action).

The acquisition of Shares in the Scheme Company is regulated by Chapter 6 of the Corporations Act. For a brief discussion about the relevant restrictions imposed by Chapter 6, see **Section 6.11** of this Explanatory Statement.

Further, rights attaching to the Shares provide certain other protections to holders of those securities (see **Section 10.8** of this Explanatory Statement).

7.20 Summary of shareholder protections under ASX Listing Rules that apply to the Scheme Company

Under the ASX Listing Rules, there are various obligations that companies must comply with that protect the interests of shareholders. These including the following:

- (a) **Continuous disclosure:** chapter 3 of the ASX Listing Rules imposes continuous disclosure obligations on listed companies such that they must disclose material information that would have a material effect on the price or value of their shares;
- (b) **Dilution:** ASX Listing Rule 7.1 provides protection to shareholders against dilution by imposing a limit on the number of securities that a listed company can issue within a 12-month period without obtaining shareholder approval. The limit is calculated according to a formula, however, it is referenced to 15% of the total equity securities that a listed company has issued in the preceding 12-month period;

- (c) **Significant transactions:** pursuant to Chapter 11 of the ASX Listing Rules, shareholder approval is required for the following significant transactions:
 - (i) any proposed change to the nature of the company's business activities;
 - (ii) any proposed change to the scale of the company's business activities; or
 - (iii) a disposal of the company's main assets or business; and
- (d) **Related party transactions:** Shareholder approval is required for a variety of transactions with persons in a position of influence in relation to the listed company. For example, a disposal of, or an acquisition of assets by, certain persons such as substantial holders of the company, related parties or subsidiaries requires shareholder approval under ASX Listing Rule 10.1. Shareholders must also approve the issue of securities to a related party under ASX Listing Rule 10.11. In addition, pursuant to ASX Listing Rule 10.17 any increase in the total aggregate amount of non-executive directors' fees requires shareholder approval.

7.21 Summary of statutory shareholder rights and protections that apply to UK HoldCo

The Companies Act 2006 (**Companies Act**) affords a number of rights to members, within which are included certain minority shareholder protections. These rights and protections include, but are not limited to, the following:

- (a) **Right to require directors to call a general meeting of members:** Section 303 of the Companies Act provides that shareholders representing at least 5% of such of the paid-up capital of the company as carries the right of voting at general meetings of the company (excluding any treasury shares) have the ability to request that the directors call a general meeting. Under section 304 of the Companies Act, the directors must call the general meeting requested by the shareholders (under section 303 of the Companies Act) within 21 days from the date on which they became subject to the requirement and the meeting must be held within 28 days of the date of the notice convening the meeting.
- (b) **Right to call a general meeting of members:** Under section 305 of the Companies Act, where members have made a section 303 request for the directors to call a general meeting and the directors do not do so in accordance with section 304, the members who requested such a meeting (or any of them representing more than half of the total voting rights of all of them) may themselves call a general meeting at the company's expense.
- (c) **Right to propose resolutions at a general meeting:** Where a meeting is requested in accordance with section 303 of the Companies Act, the members making such a request may include the text of a resolution to be moved at the meeting for circulation to members.
- (d) **Right to require company to circulate statements:** Members representing at least 5% of the total voting rights of all the members who have a relevant right to vote (excluding treasury shares) may require the company to circulate, to members of the company entitled to receive notice of general meetings, a statement of not more than 1,000 words in respect of a matter referred to in a proposed resolution of the relevant general meeting, or any other business to be dealt with at that meeting.
- (e) **Information access rights:** The Companies Act grants shareholders the right to access certain information about the company. For example, this includes the right to inspect (and to require a copy of) the register of members and to inspect records of resolutions and shareholder meetings.

- (f) **Ability to enforce membership rights:** The articles of association of a company act as a statutory contract between the members and each other, and the members and the company (section 33 of the Companies Act). The effect of this provision is that members can sue the company or other members under section 33 if their “membership rights” are infringed. The meaning of “membership rights” is far from clear. Examples of membership rights that have been enforced under section 33 of the Companies Act include the right to vote at a meeting, the right to receive notice of a general meeting and the right to receive a dividend once it has been lawfully declared.
- (g) **Ability to make a derivative claim:** Whilst section 33 of the Companies Act allows a member to sue in his own name for his own membership rights, Part 11 of the Companies Act allows a member to initiate proceedings for a cause of action vested in the company itself, and to seek relief on the company’s behalf (a **derivative claim**). Under section 260(3) of the Companies Act, a derivative claim may only be brought in respect of a cause of action arising from an actual or proposed act or omission involving negligence, default, breach of duty or breach of trust by a director. It is not necessary to show that the wrongdoer benefited from any breach of duty. However, permission of the court must be sought to continue a derivative claim. There are certain criteria that must be considered by the court and the onus is on the member to make out a prima facie case, and the court has a discretion as to whether or not to permit a claim.
- (h) **Ability to seek relief from unfair prejudice:** Section 994 of the Companies Act allows a member to apply to the court for an order on the grounds that:
- (i) the company’s affairs are being or have been conducted in a manner which is unfairly prejudicial to the interests of members generally, or of some part of its members (in the latter case, this must include the petitioner himself); or
 - (ii) that an actual or proposed act or omission by the company would be so prejudicial.

Examples of prejudicial conduct can include:

- (i) negligent or inept management of the company;
- (ii) failure to pay dividends;
- (iii) excessive remuneration of the directors;
- (iv) allotting further shares for the improper goal of diluting a minority shareholder; and
- (v) failure to abide by the articles of association.

In determining what remedy should be ordered, the court has a wide discretion. Section 996(1) of the Companies Act permits the court to make various orders pursuant to an unfair prejudice claim, and may include:

- (vi) requiring the company to refrain from an act, or compelling it to implement an act it has omitted doing;
- (vii) prohibiting changes to the company’s articles of association; and/or
- (viii) providing for the purchase of shares of a member by other members or the company itself.

7.22 Escrow restrictions and stapling arrangements

- (a) Each Scheme Senior Lender, except for Anchorage, in accordance with the Steps, will enter into a Voluntary Escrow Deed (executed by the Scheme Administrators under power of attorney) with the Scheme Company and UK HoldCo with the customary carve-outs in respect of control transactions effected by way of a takeover bid or scheme of arrangement (including a creditors' scheme of arrangement) pursuant to which the Scheme Senior Lenders will agree that:
- (i) the New Shares issued to them under the Scheme will be tradeable only if the transferee acquires the corresponding debt instruments under the New AUD Super Senior Facility (if applicable) and the SFA Facility; and
 - (ii) the UK HoldCo Shares issued to them under the Scheme will be tradeable only if the transferee acquires the corresponding debt instruments under the New GBP Super Senior Facility (if applicable) and the Convertible Note Deed,
- (together, the **Escrow Arrangements**) with the Escrow Arrangements coming to an end 24 hours after:
- (i) in respect of the New Shares, and the instruments issued under the New AUD Super Senior Facility and the Restated SFA - the earlier of the release of the Scheme Company's FY19 half-year results and 28 February 2019; and
 - (ii) in respect of UK HoldCo Shares, and the instruments issued under the New GBP Super Senior Facility and the Convertible Note Deed - 28 February 2019.
- (b) Anchorage will, in accordance with the Steps, enter into a Voluntary Escrow Deed (executed by the Scheme Administrators under power of attorney) on the same terms as the Escrow Arrangements except that the Escrow Arrangements will come to an end 24 hours after:
- (i) in respect of the New Shares only - the earlier of the release of the Scheme Company's FY19 full year results and 31 August 2019; and
 - (ii) in respect of UK HoldCo Shares only - 31 August 2019.
- (c) During the relevant periods outlined above, each Scheme Senior Lender (or its nominee to which the New Shares and the UK HoldCo Shares are issued under the Scheme) will not be permitted to dispose of any such shares, Convertible Notes or debt instruments, except to another Scheme Senior Lender (or its nominee), which is also subject to a Voluntary Escrow Deed.
- (d) It is also noted that, pursuant to entering into the Voluntary Escrow Deeds under the Scheme, each Scheme Senior Lender may be considered as having a relevant interest in each other Scheme Senior Lender's New Shares to be issued under the Scheme until the escrow periods under the Voluntary Escrow Deeds come to an end for each Scheme Senior Lender other than Anchorage (being 24 hours after the earlier of the release of the Scheme Company's FY19 half-year results, or 28 February 2019). This potential acquisition of a relevant interest in each other Scheme Senior Lender's New Shares is solely to the extent that section 608(2) of the Corporations Act may give rise to a technical acquisition as a result of the Scheme Senior Lenders only being able to trade their debt and equity interests in the Scheme Company within the group of Scheme Senior Lenders. These arrangements will continue with respect to the New Shares issued to Anchorage under the Scheme until the earlier of the release of the Scheme Company's FY19 full-year results or 31 August 2019. Any such acquisition of relevant interests would:

- (i) occur in accordance with item 17 of section 611 of the Corporations Act as it would result from the Scheme (and therefore is permitted by section 606(1A) of the Corporations Act); and
- (ii) result in each Scheme Senior Lender being required to lodge a substantial holder notice within two Business Days after the Implementation Date.

7.23 Senior Lenders to seek own advice

Senior Lenders should seek their own advice in relation to whether or not they consider that the Scheme will produce a better commercial result than what they would obtain without the Scheme.

7.24 Execution risks associated with Scheme

The execution risks that could prevent the Scheme from proceeding include the following:

- (a) the Scheme is not implemented on or before the Sunset Date;
- (b) the Requisite Majority of Senior Lenders do not agree to the Scheme;
- (c) the Court does not approve the Scheme or it approves the Scheme with alterations or conditions that change the substance of the Scheme, including the Steps, in a material way;
- (d) the Court does not approve the Shareholder Claimant Scheme or it approves the Shareholder Claimant Scheme with alterations or conditions that change the substance of the Shareholder Claimant Scheme in a material way;
- (e) the Court does not approve the Hall Proceeding Settlement;
- (f) any or all of the other Conditions Precedent are not satisfied; or
- (g) a person objecting to the Scheme appeals against the Court's orders approving the Scheme (and potentially seeks a stay of those orders pending resolution of that appeal) or applies for injunctive relief and the Court orders the stay or grants an injunction without requiring the person to give the usual undertaking as to damages.

It is also fundamental to the operation of the Scheme that each of the Security Trustees, Note Trustee (UK), Senior Agents, Scheme Administrators, Obligors, UK HoldCo, Released Obligor Individuals and the Scheme Senior Lenders perform their respective obligations under the Scheme. Each of these persons has signed, or has undertaken to sign, a Deed Poll under which they agree to be bound by the Scheme on the Effective Date (except in the case of each Scheme Senior Lender who irrevocably directs the Scheme Administrator to execute and deliver, as its attorney and agent, a Scheme Senior Lender Deed Poll on its behalf) and undertake certain actions in connection with the Scheme.

If the Scheme (as described in **Section 7**) is not implemented and an alternative debt repayment solution which is supported by the Senior Lenders is not found promptly, it is expected that the Directors would appoint a voluntary administrator and the Security Trustee (Aus) (on the instructions of the Senior Lenders) would appoint a receiver (or receiver and manager) over the assets of certain of the Obligors to the extent that they have provided Security in favour of the Security Trustee (Aus). See **Section 2.5** for further information.

7.25 Who will be bound by the Scheme?

If the Scheme becomes Effective, it will bind all Senior Lenders and the Scheme Company. By operation of the Deeds Poll, provided that they are executed, the Scheme will bind the Scheme Administrators, the Obligors, UK HoldCo, the Senior Agents, the Security Trustees, the Note Trustee (UK) and any person who is or was a Director,

officer, or employee of the Scheme Company at any time up to and including the Implementation Date and who has signed a Released Obligor Individual Deed Poll.

If a Senior Lender does not vote at the Scheme Meeting, or if it votes against the Scheme, that Senior Lender will still be bound by the Scheme, provided that the Scheme is approved by the Requisite Majority of Senior Lenders, is approved by the Court, and that Senior Lender remains a Senior Lender as at the Effective Date.

7.26 Modification of the Scheme

- (a) It is possible that a Senior Lender may propose a modification to the terms of the Scheme at the Scheme Meeting prior to passing the Resolution to approve the Scheme or the Senior Lender may apply to the Court for a modification to the terms of the Scheme.

Although it is permissible for a Senior Lender to propose a modification, and for a Scheme Meeting to consider a resolution to approve the modification, Senior Lenders should be aware that the consequences of modifying the terms of the Scheme are that:

- (i) if the modification is materially adverse to the Scheme Company or any particular Scheme Senior Lender it may give rise to a basis, which may not otherwise exist, on which the Court may refuse to approve the modified Scheme. In such circumstances, the Scheme will not become Effective (in either the modified or original form);
- (ii) the Scheme Company may not consent to the modified Scheme and therefore the Scheme Company may not be prepared to seek the Court's approval of the modified Scheme; and
- (iii) depending on the nature and extent of the modifications, and their impact upon the overall Scheme, the modifications could effectively invalidate any previously obtained consents, and if so, then the consequence may be that consents would need to be obtained afresh.

As certain amounts of the Secured Debt fall due for repayment on 29 May 2018, the Scheme Company may not have sufficient time to recommence the process of seeking approvals for a modified scheme, if any modifications made at the Scheme Meeting result in the Scheme not being approved by the Court.

- (b) Under section 411(6) of the Corporations Act, the Court may approve the proposed Scheme on the Second Court Date subject to any alterations or conditions as it thinks just.

7.27 The Scheme Administrators

If the Scheme is agreed by the Requisite Majority of Senior Lenders at the Scheme Meeting, and approved by the Court, the Scheme Administrators will be appointed in accordance with the terms of the Scheme Administrators Deed Poll, the obligations of which will become effective on and from the Effective Date. Mark Korda and Bryan Webster of KordaMentha have agreed to act as Scheme Administrators.

Under the terms of the Scheme Administrators Deed Poll, each Scheme Administrator irrevocably:

- (a) consents to the Scheme;
- (b) agrees to be bound by the Scheme as if it were a party to the Scheme; and
- (c) undertakes in favour of each Recipient (as defined therein):
 - (i) to accept all appointments, authorisations and directions, to perform all obligations and undertake all actions attributed to it under the Scheme;

- (ii) to do all things and execute all further documents necessary to give full effect to the Scheme and the transactions contemplated by it; and
- (iii) to not act inconsistently with any provision of the Scheme.

The Scheme Administrators' liability in the performance or exercise of its powers, obligations and duties under the Scheme is limited in accordance with the Scheme. The schedule of rates to be charged by the Scheme Administrators is set out in **Annexure H** to this Explanatory Statement.

7.28 Challenging the Scheme Administrators generally

A Scheme Senior Lender who is aggrieved by any act, omission or decision of the Scheme Administrators may appeal to the Court under section 1321 of the Corporations Act. The Court may confirm, reverse or modify the act or decision, or remedy the omission, as the case may be, and make such orders and give such directions as it thinks fit.

8 Risks associated with the Scheme Company and UK HoldCo

A summary of the selected major industry risks and risks relating to the Scheme Company, UK HoldCo and the separation of UK Operations is set out in this section. It should be noted that these risks are in addition to the risks commonly faced by businesses, including financial, economic, counterparty, credit and regulatory risks, which may have adverse consequences on the Scheme Company and UK HoldCo. Senior Lenders should be familiar with these risks.

The future performance of the Scheme Company and UK HoldCo, and the price of Shares and UK HoldCo Shares, will be influenced by a number of factors, which may be specific to the proposed Scheme, to the Scheme Company, to UK HoldCo or of a general nature. Whilst some of these factors can be mitigated by the use of safeguards and appropriate systems and actions, some are outside the control of the Scheme Company and UK HoldCo and cannot be mitigated. The principal risks include, but are not limited to, those set out below.

Senior Lenders should be aware that holding Shares in the Scheme Company and UK HoldCo Shares in UK HoldCo involves many risks, which may be different to the risks associated with holding shares in other companies.

Senior Lenders should consider consulting their professional advisers before deciding whether to vote in favour of the Scheme.

(a) Operations

While the Group has operational risk management practices, the profitability of the Australian Operations and UK Operations will continue to be subject to a variety of operational risks including strategic and business decisions (such as acquisitions and/or divestments of assets), technology risk (including business systems failure), reputation risk, fraud, compliance with legal and regulatory obligations, counterparty performance under outsourcing arrangements, business continuity planning, legal risk, data integrity risk, client default risk, key personnel risk and external events. A further operational risk is that a client or clients may terminate the services of a Group member at any time, for any reason.

(b) Separation of UK Operations from Australian Operations may fail to realise anticipated benefits

The Scheme Company and/or UK HoldCo may fail to realise any or all of the anticipated benefits of separating the UK Operations from the Australian Operations, either in a timely manner or at all. Some of the potential benefits of the separation may not be achieved as a result of circumstances outside the control of the Scheme Company or UK HoldCo.

As part of the implementation of the Scheme, UK HoldCo will replace certain administrative, finance and IT services with its own internal capability, third party contracts and transitional service agreements, as appropriate. It may take some time for UK HoldCo to procure the necessary resources and services to ensure that all processes are operating fully and effectively. There is a risk that establishment of these capabilities may take longer than expected and may involve greater costs than anticipated.

(c) Competition

The Australian Operations and UK Operations compete with other legal firms, including those that offer personal injury and/or other legal services. Competition is on the basis of a number of factors, including the quality of advice and service, innovation, reputation and price. However, there is no assurance that competitors will not succeed in developing and offering legal services that are more effective,

economic or otherwise more desirable than those being offered by the Scheme Company and/or UK HoldCo.

Additionally, the Scheme Company and/or UK HoldCo may not be able to compete successfully against current or future competitors where aggressive pricing policies are adopted by those competitors to capture market share. Such price competition could result in revenue reductions, reduced margins, and loss of market share, any of which could have a material adverse effect on the Scheme Company's or UK HoldCo's future business, operating results and financial position.

(d) **Reputation**

If the Scheme Company or UK HoldCo does not meet a client's expectations, or if it is involved in litigation relating to its performance in a particular matter, the reputation of the Scheme Company or UK HoldCo could be significantly damaged. The Scheme Company's or UK HoldCo's reputation could also be damaged through its involvement (as an adviser or litigant) in high profile or unpopular legal proceedings. The Scheme Company or UK HoldCo may be required to incur legal expenses in defending itself against any litigation arising in, or out of, such cases and may also incur significant reputational and financial harm if such litigation is successful or if the Scheme Company or UK HoldCo receives negative press coverage.

(e) **Key personnel**

The Australian Operations and UK Operations are highly reliant on their ability to attract new, and retain existing, key personnel. Due to the competitive market for high quality lawyers, the Scheme Company and/or UK HoldCo may experience difficulty in hiring employees with appropriate qualifications and experience. The Australian Operations and UK Operations are also heavily reliant on existing key personnel to maintain business and client relationships. If the Scheme Company and/or UK HoldCo cannot attract, retain and motivate these key employees, their profitability could be harmed.

(f) **Regulatory change**

The Australian Operations and UK Operations are highly regulated. As such, they could be adversely affected by changes in UK or Australian State, Territory and Commonwealth governments and changes in government legislation, guidelines and regulations. Such changes may detrimentally affect revenue, require increased capital and/or operating expenditures and could prevent or delay certain acquisitions or growth initiatives by the Scheme Company and/or UK HoldCo, any of which could have a material adverse effect on their respective businesses and financial condition.

(g) **Economic risk and external market factors**

Factors such as (but not limited to) political movements, stock market trends, changing client preferences, interest rates, inflation levels, foreign exchange rates, industrial disruption, international competition, taxation changes and changes in domestic or international fiscal, monetary, regulatory and other government policies, may all have an adverse impact on the Scheme Company's and UK HoldCo's operating costs, profit margins and share price. These factors are beyond the control of the Scheme Company and UK HoldCo and they cannot, to any degree of certainty, predict how they will impact the Scheme Company or UK HoldCo.

(h) **Liquidity for Shares of the Scheme Company**

There can be no guarantee of an active market in Shares or that the price of Shares will increase. There may be relatively few potential buyers or sellers of

the Shares on ASX at any given time. This may increase the volatility of the market price of the Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares.

(i) **Liquidity for UK HoldCo Shares**

As UK HoldCo is a private limited company, there will be no active market in the UK HoldCo Shares. It may therefore be difficult to sell UK HoldCo Shares, particularly given the arrangements under the Voluntary Escrow Deeds.

(j) **Conflict of duties**

Lawyers have a primary duty to the courts and a secondary duty to their clients. These duties are paramount given the nature of the Scheme Company's business as an Incorporated Legal Practice. There could be circumstances in which the Scheme Company's lawyers (both in respect of the Australian Operations and UK Operations) are required to act in accordance with these duties and against the interests of shareholders and the short term profitability of the Scheme Company or UK HoldCo.

(k) **Employee misconduct**

The Scheme Company and UK HoldCo are exposed to the risk of employees engaging in misconduct, including by improperly using or disclosing confidential client information. Employee misconduct could result in considerable harm to the Scheme Company's or UK HoldCo's reputation, as well as regulatory sanctions and financial damage.

(l) **Professional liability and insurance policies**

As the Scheme Company is a law firm it is susceptible to potential liability from negligence, breach of client contract and other Claims by clients such as under consumer protection legislation (both in respect of the Australian Operations and UK Operations). This liability creates the risk of damage to the Scheme Company's and UK HoldCo's financial condition and their reputations.

Although the Scheme Company holds (and UK HoldCo will hold) professional liability insurance, this insurance may not cover all potential Claims and may not adequately indemnify the Scheme Company or UK HoldCo for all liability that may be incurred, or loss suffered. Any liability or legal defence expenses not covered by insurance, or that are in excess of the Scheme Company's or UK HoldCo's coverage, may have a material adverse effect on their business and financial condition.

(m) **Intellectual property rights and brand name**

The Scheme Company regards its brand name, trademarks, domain names, trade secrets and similar intellectual property as important to its success. The Scheme Company will grant to UK HoldCo a perpetual royalty-free right to use its brand name for the UK Operations, which will also permit UK HoldCo to use this brand in Europe and Ireland. If its brand name is damaged in any way or loses market appeal, the Scheme Company's business could be adversely impacted. While the Scheme Company will use all reasonable endeavours to protect its intellectual property rights, unauthorised use or disclosure of its intellectual property may have an adverse effect on the operating, marketing and financial performance of the Scheme Company and/or UK HoldCo.

(n) **Information systems**

There is a risk of catastrophic loss to computer equipment or other facilities that would have a serious impact on the Australian Operations and/or the UK Operations. The Scheme Company can give no assurance that all such risks will be adequately covered by existing systems (or any new systems employed) or its

insurance policies to prevent an adverse effect on the Scheme Company's or UK HoldCo's financial performance.

(o) **Integration of past acquisitions**

The success of acquisitions is heavily dependent on the integration of acquired businesses. The Scheme Company and S&G UK have acquired a number of legal practices, including Watchstone. The integration process could be more expensive or time consuming than currently anticipated by the Scheme Company, for example in the event of issues with staff retention, increased management time required to integrate the practices and difficulties arising in relation to the separation of the UK Operations from the Australian Operations. In addition, the acquired practices may not perform in line with the Scheme Company's pre-acquisition forecasts.

(p) **Indebtedness**

Each of the Scheme Company and S&G UK (which will be wholly owned by UK HoldCo on and from implementation) will continue to have a level of debt following implementation of the Scheme, requiring payment of interest.

The Scheme Company's gross senior secured debt position will be up to approximately \$125 million following implementation of the Scheme, which is comprised of the amounts owing under the Restated SFA following implementation of the Scheme and the total amount available under the New AUD Super Senior Facility. S&G UK's gross debt position will be up to the GBP equivalent of approximately \$25 million plus £250 million owing under the Convertible Notes (subject to rounding). While this is a reduction of the Scheme Company's and S&G UK's current total indebtedness from the levels prior to implementation of the Scheme, this level of indebtedness still has important consequences for the Scheme Company, UK HoldCo and their respective shareholders, including the following:

- (i) requiring the Scheme Company and S&G UK to dedicate a material portion of their cash flow from operations to meet principal and interest payments thereby reducing the availability of cash flow to fund working capital, capital expenditures, development activity, acquisitions and other general corporate purposes;
- (ii) increasing the Scheme Company's and S&G UK's vulnerability to adverse general economic or industry conditions, including exchange rate fluctuations;
- (iii) subjecting the Scheme Company and S&G UK to a number of covenants, which reduce their flexibility in planning for, or reacting to, changes in the Scheme Company's and S&G UK's industry;
- (iv) placing the Scheme Company and S&G UK at a competitive disadvantage compared to their competitors that have less debt or are not subject to similar covenants; and
- (v) as the new debt arrangements will also be secured, the debt holders have priority over any shareholders of the Scheme Company and UK HoldCo on an insolvency event.

While the Scheme Company believes that the above consequences will, in part, be alleviated by the proposed Scheme (for example, ongoing principal and interest repayments will be materially reduced), there can be no guarantee that this will be the case.

(q) **Equity capital market fluctuations**

Senior Lenders should be aware that there are risks associated with holding shares in a company listed on ASX (in respect of the Scheme Company) and shares in a private limited company (in respect of UK HoldCo). The value of such shares may fluctuate depending on the financial and operating performance of the Scheme Company and UK HoldCo (as applicable) and external factors over which directors of the respective entities have no control. These external factors include:

- general movements in domestic and international stock markets;
- investor sentiment;
- domestic and international economic conditions and outlook;
- changes in interest rates and the rate of inflation;
- changes in government regulation and policies;
- announcement of new technologies; and
- geo-political instability, including international hostilities and acts of terrorism.

(i) **Speculative nature of shareholding in the Scheme Company and UK HoldCo**

The list of factors in this **Section 8** ought not to be taken as exhaustive of the risks faced by the Scheme Company, UK HoldCo or their respective shareholders. The factors outlined, and others not specifically referred to in this section, may in the future materially affect the financial performance of the Scheme Company or UK HoldCo and the value of their shares.

The New Shares and UK HoldCo Shares issued to Scheme Senior Lenders pursuant to the Scheme carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those securities.

Senior Lenders should consider that holding the New Shares and UK HoldCo Shares is speculative and should consult their professional advisers before deciding whether to vote in favour of the Scheme.

(r) **Cash flow constraints and going concern**

There is a risk that the Scheme Company and/or UK HoldCo may need to seek to raise additional funds through capital raisings or seek to further renegotiate the Scheme Company's and/or S&G UK's debt arrangements. If the market conditions materially deteriorate, and the Scheme Company or S&G UK is unable to lower its cost base further or raise sufficient additional funds (by asset sales or additional capital raisings), or further renegotiate its debt obligations on terms acceptable to the Scheme Company or UK HoldCo, the directors of the Scheme Company or UK HoldCo (as applicable) would need to consider whether the relevant operations remain viable, which could ultimately impact on the Scheme Company's or UK HoldCo's (as applicable) ability to operate as a going concern.

(s) **Risk of dividends not being paid**

The Scheme Company has not declared and paid a dividend since October 2015 and does not expect to pay dividends in the near term. UK HoldCo is a newly incorporated entity and has not paid any dividends. The ability of the Scheme Company or UK HoldCo to pay any dividend in the future is dependent on many factors. No assurance can be given regarding the payment of dividends in the future.

(t) **Compliance generally with debt arrangements**

The Scheme Company and S&G UK will be subject to multiple ongoing obligations and negative covenants relating to a wide variety of factual matters concerning the Australian Operations and UK Operations. If these obligations and covenants are breached, this could result in the occurrence of an event of default under the relevant facilities.

The terms of the relevant facilities are described in more detail in **Section 7.8** and **Section 7.9**.

The occurrence of an event of default arising by reason of a breach of certain obligations and covenants could result in amounts owing under the relevant facilities becoming immediately due and payable or may permit the Scheme Senior Lenders to take steps to accelerate repayment of the loans and enforce their security, including by appointing a receiver and manager to the assets of the Scheme Company or UK HoldCo.

(u) **Convertible Note Deed**

As summarised in **Section 7.9(b)**, the redemption of the Convertible Notes is limited to Watchstone Proceeds exceeding \$40 million and certain other net cash proceeds of the UK Obligors and subject to the application of such proceeds received by the UK Obligors towards, among other things, prepayment of the New GBP Super Senior Facility. Consequently, there is a risk that those proceeds will not be sufficient to redeem the full face value of the Convertible Notes.

(v) **Tax implications**

Changes in tax law, or changes in the way tax laws are interpreted, may impact the tax liabilities of the Scheme Company or UK HoldCo, or the tax treatment in respect of the Steps undertaken under the Scheme. In particular, both the level and basis of taxation may change.

Tax law is frequently being changed, both prospectively and retrospectively. Any actual or alleged failure to comply with, or any change in the application or interpretation of tax rules applied in respect of such transactions, may increase the Scheme Company's or UK HoldCo's tax liabilities or expose it to legal, regulatory or other actions.

In addition, an investment in Shares and in UK HoldCo Shares involves tax considerations which may differ for each shareholder.

Senior Lenders should also note that transfers of UK HoldCo Shares will be subject to UK stamp duty, Scheme Senior Lenders may incur tax costs as an immediate result of the Scheme and their tax treatment in respect of the instruments they hold after implementation of the Scheme may be different from their tax treatment in respect of the instruments they currently hold.

9 Summary of Independent Expert's Report

9.1 Scope of Independent Expert's Report

The Scheme Company has engaged KPMG to prepare a report addressing the following matters:

- the solvency of the Scheme Company, before and immediately following the implementation of the Scheme;
- the value of the assets of the Scheme Company, relative to the total amount of the Secured Debt owing to Senior Lenders;
- the expected return to Senior Lenders immediately after implementation of the Scheme, if the Scheme was put into effect as proposed;
- the expected return which would be paid to Senior Lenders if the Scheme Company was to be wound up within six months of the hearing date for orders under section 411(1) and (1A) of the Corporations Act; and
- the likely outcome for the Scheme Company should the Scheme not be implemented.

Senior Lenders should consider the Independent Expert's Report in full, which is in **Annexure D**, before deciding how to vote.

9.2 Independent Expert's conclusions on asset value and solvency

Subject to the assumptions made in the Independent Expert's Report, the Independent Expert is of the opinion that:

- (a) if the Scheme is not implemented, the Scheme Company is at risk of becoming insolvent sometime by May 2018, when the first three tranches of the Syndicated Facility Agreement fall due; and
- (b) immediately following implementation of the Scheme, the Scheme Company will be solvent.

In addition, the Independent Expert has also stated when opining on whether the recapitalisation (which includes the Scheme) is fair and reasonable for the purposes of the resolutions to be considered at the Shareholding Meeting, subject to the assumptions made in the Independent Expert's Report, that:

- (a) the enterprise value of the Scheme Company is in the range of \$208.8 million to \$294.5 million; and
- (b) the Scheme Company's level of debt (prior to the Scheme) significantly exceeds the Scheme Company's enterprise value.

9.3 Independent Expert's conclusions on Scheme Senior Lenders' implied value under the Scheme

Subject to the assumptions made in the Independent Expert's Report, the Independent Expert is of the opinion that if the Scheme is put into effect as proposed, the implied value of the Scheme Senior Lenders' interests after implementation of the Scheme (being the return to Senior Lenders as a percentage of the Scheme Company's gross debt) would be as follows:

		Low	Mid	High
Scheme Lenders	Senior	22.4%	29.8%	37.2%

The Independent Expert highlighted that the continued solvency of the Scheme Company remains dependent upon the Scheme Company improving its underlying financial performance.

9.4 Independent Expert's conclusions on expected return if the Scheme Company were to be wound up

Subject to the assumptions made in the Independent Expert's Report, the Independent Expert is of the opinion that if the Scheme is not implemented and the Scheme Company were to be wound up, the expected return for the Scheme Senior Lenders would be as follows:

		Low	Mid	High
Scheme Lenders	Senior	2.0%	12.4%	22.9%

The Independent Expert noted that the expected return from an insolvency of the Scheme Company is highly uncertain due to the complexity of the Scheme Company's operations across multiple sites and jurisdictions as well as the risk of regulatory intervention.

9.5 Independent Expert's conclusions on the most likely outcome for the Scheme Company if the Scheme is not put into effect

Subject to the assumptions made in the Independent Expert's Report, the Independent Expert is of the opinion that, if the Scheme is not implemented, the Scheme Company would likely be placed into external administration.

10 Additional information

10.1 Separation of UK Operations

On and from the Implementation Date, the UK Operations will be separate to the Australian Operations. The Business Separation Agreement will provide that, *inter alia*:

- (a) following the separation of the UK Operations and the Australian Operations in accordance with the Steps, the Australian Group will have the entire economic benefit of the Australian Operations and will assume all risk in relation to the Australian Operations;
- (b) following the separation of the UK Operations and the Australian Operations in accordance with the Steps, the UK Group will have the entire economic benefit of and will assume all risk in relation to the UK Operations as if the UK Group, and not the Scheme Company, had always owned those operations;
- (c) short-term transitional arrangements will be adopted, such that:
 - (i) the Australian Group shall continue to maintain various IT contracts for the benefit of both the Australian Operations and the UK Operations for an interim period, and the parties will agree arrangements with respect to the sharing of costs associated with those IT contracts; and
 - (ii) the Scheme Company will make available certain employees to provide IT support to both the UK Group and the Australian Group;
- (d) the parties will seek to procure the release of parent guarantees and other forms of security and financial support provided by the Scheme Company (such as parent guarantees in respect of UK leases and other material contracts) with effect from the Implementation Date, or as soon as reasonably practicable thereafter;
- (e) the Australian Group will arrange and hold PII top up insurance coverage for both the Australian Group and the UK Group for the period commencing on the Implementation Date to the end of September 2018 and the parties will agree arrangements with respect to the sharing of costs in relation to that insurance policy;
- (f) the Scheme Company will convert its current directors' and officers' insurance for the Group into a run-off policy; and
- (g) the Australian Group will be responsible for the production of a consolidated set of half-year accounts for the six-month period ended 31 December 2017 and consolidation up until the date of separation.

In addition to the Business Separation Agreement, as part of the separation of the UK Operations from the Australian Operations, the Scheme Company will enter into the IP Deed and grant a perpetual royalty-free licence to S&G UK over its trade marks and other intellectual property such that the UK Operations can use the Scheme Company's brand name and intellectual property for the UK Operations, with UK HoldCo also permitted to use these trade marks in Europe and Ireland. In consideration for this perpetual licence, S&G UK will reduce the value of the intercompany loans owed by the Scheme Company as at the date of the IP Deed by the value of the IP that is licensed to S&G UK. While the UK Operations will be able to use the Scheme Company's brand name in the UK, the Scheme Company will ultimately retain ownership of its trade-marks, brand name and intellectual property.

10.2 Watchstone Entitlement Amount

The Watchstone Entitlement Amount is \$40 million owed by UK HoldCo to the Scheme Company as partial consideration for the transfer of the S&G UK shares to UK HoldCo. Payment of the Watchstone Entitlement Amount is contingent upon receipt of proceeds received by S&G UK or any other member of the UK Group from Watchstone (or any of its related entities or associates) in connection with the Watchstone Acquisition, including the release of any proceeds from any escrow account held in connection with the Watchstone Sale Agreement or any other proceeds received on account of settling any Claim against Watchstone by S&G UK or the UK Group or any other person in relation to the Watchstone Acquisition and after deducting:

- (a) any reasonable expenses which are incurred by any member of the UK Group to persons who are not members of the UK Group in connection with the realisation or recovery of such proceeds; and
- (b) any Tax incurred and required to be paid by a member of the UK Group (as reasonably determined by the relevant member of the UK Group on the basis of existing rates and taking into account any available credit, deduction or allowance).

10.3 Shareholder Claimant Scheme

As noted in **Section 2.12** in addition to restructuring the Secured Debt under this Scheme, the Scheme Company is also proposing a Shareholder Claimant Scheme to extinguish all Shareholder Claims (including those currently or previously filed against the Scheme Company).

This Scheme and the Shareholder Claimant Scheme are inter-conditional.

The key terms of the Shareholder Claimant Scheme are as follows:

- (a) the right and entitlement of each Shareholder Claimant to bring or enforce any Shareholder Claim:
 - (i) against the Scheme Company or its directors and officers is extinguished; and
 - (ii) is limited to its entitlement (if any) under a scheme fund established under the Shareholder Claimant Scheme;
- (b) Maurice Blackburn, in its capacity as solicitors for the Hall Proceeding Claimants, will be required to pay an amount equal to \$32.5 million less payment of all legal costs incurred by the Hall Proceeding Claimants, into the scheme fund;
- (c) each Shareholder Claimant will be invited to submit proofs of debt to have their Shareholder Claims determined;
- (d) if a Shareholder Claimant's proof of debt has been admitted to proof and the quantum to be attributed to its Shareholder Claim has been determined and accepted, the Shareholder Claimant will be entitled to share in the scheme fund in respect of its entitlement (on a pari passu basis and in accordance with the distribution procedures in the Shareholder Claimant Scheme);
- (e) each Shareholder Claimant will provide releases for the benefit of the Scheme Company and its directors and officers; and
- (f) Shareholder Claimants will not be entitled to pursue certain claims against third parties which relate to Shareholder Claims.

Full details of the Shareholder Claimant Scheme are set out in the explanatory statement to be provided to Shareholder Claimants and which has been announced to the ASX on the same date as this Explanatory Statement.

As at the date of this Explanatory Statement, two shareholder representative proceedings have been filed against the Scheme Company in the Federal Court of Australia. The Scheme Company has also been notified of a further potential shareholder class action claim.

The information below includes a description of estimates that the Hall Proceeding Claimants, the claimants in the Babscay Proceeding and the claimants in the Delaney Potential Claim have made about the value of their respective claims against the Scheme Company. The Scheme Company provides this information to Senior Lenders for their information but makes no comment on and does not warrant the accuracy of those estimates.

(a) **Hall Proceeding**

The Hall Proceeding is a representative proceeding filed against the Scheme Company in the Federal Court of Australia on 12 October 2016. The proceeding was filed on behalf of an open class of Shareholders who purchased Shares during the period from 30 March 2015 to 24 February 2016. The Hall Proceeding Claimants allege that the Scheme Company engaged in misleading and deceptive conduct and breached its continuous disclosure obligations during the period from 30 March 2015 to 24 February 2016.

The claim filed in the Hall Proceeding does not quantify loss and damage, however, Maurice Blackburn, the Hall Proceeding Claimants' solicitor, has stated in affidavit material filed with the Court that over 4,000 shareholders (which may be former or current) have registered as group members. The Hall Proceeding is an 'open class' proceeding and so the total number of group members is likely to exceed 4,000 in total. Maurice Blackburn has also stated that the claims of registered group members are worth in excess of \$400 million (not including interest) and that it estimates that the claims of all group members of the open class are in excess of \$1.1 billion (not including interest).

On 11 July 2017, the Scheme Company announced in principle conditional settlement of the Hall Proceeding. On 21 September 2017, the Scheme Company announced that a binding deed of settlement had been signed in respect of the Hall Proceeding. In summary, the settlement terms are as follows:

- (i) an agreed settlement amount of \$32.5 million (**Insurer Contribution Amount**), which will comprise proceeds from responsive directors and officers liability insurance policies held by the Scheme Company for the benefit of directors, officers and the Scheme Company made available by agreement reached with the Scheme Company's insurers;
- (ii) \$4 million (to be funded via a drawdown under the Super Senior AUD Incremental Facility) will be made available by the Participating New Super Senior Facilities Senior Lenders to fund a further payment by the Scheme Company for the benefit of the Hall Proceeding Claimants;
- (iii) the Insurer Contribution Amount will be applied, after payment of all legal costs incurred by the Hall Proceeding Claimants, and the litigation funder's commission, to the scheme fund from which entitlements will be distributed to Shareholder Claimants (subject to proof);
- (iv) the scheme fund will be distributed to Shareholder Claimants, whose Shareholder Claims have been admitted to proof, and all Shareholder Claims will be compromised, via the Shareholder Claimant Scheme (subject to Shareholder Claimant and Court approval);
- (v) releases will be given in favour of the relevant insurers;

- (vi) various provisions releasing, resolving and insulating the Scheme Company and its current and former officers from the impact of claims by Shareholder Claimants in connection with the Scheme Company's affairs;
- (vii) the Hall Proceeding will be dismissed with no orders as to costs; and
- (viii) the settlement is without admission of liability by the Scheme Company.

(b) Babscay Proceeding

As announced to the market on 20 June 2017, a class action was filed against the Scheme Company by Babscay Pty Ltd, a shareholder of the Scheme Company. The Babscay Proceeding was filed on behalf of persons who acquired an interest in Shares between 24 August 2012 and 19 November 2015. The Babscay Proceeding is an 'open class' proceeding but neither Babscay nor Johnson Winter & Slattery (the solicitors for the claimants in the Babscay Proceeding) has identified the number of group members of the Babscay Proceeding who have registered with Johnson Winter & Slattery. The statement of claim asserts that the Scheme Company's financial statements in each of the 2013, 2014 and 2015 financial years contained false and/or misleading statements, in part due to the Scheme Company adopting an erroneous approach to recognising revenue in its accounts (which resulted in revenue from work in progress being overstated). The Claim in respect of this proceeding has not yet been quantified. In affidavit material filed with the Court, John Graham, the director of Babscay, has stated that the preliminary view of an expert retained by Babscay values the claim the subject of the Babscay Proceeding at approximately \$300 million.

(c) Delaney Potential Claim

The Scheme Company has also been advised that a further representative proceeding may be filed against the Scheme Company in the Federal Court of Australia. The Delaney Potential Claim is on behalf of a group of Shareholders who acquired Shares in the Scheme Company on or after 12 August 2014 and before 29 February 2016. Mr Delaney is advised by ACA Lawyers. A draft statement of claim provided to the Scheme Company alleges that its financial year 2015 and 2016 accounts contain false or misleading statements and further alleges that the Scheme Company adopted an erroneous approach to recognising revenue in its accounts which resulted in revenue from work in progress being overstated. This proceeding has not yet been filed.

Mr Delaney has publicly stated, in submissions made on his behalf in the Hall Proceeding, that he represents a group of 150 shareholders. While the claim has not been quantified, ACA Lawyers has stated in open correspondence that, based on information known to it, the claim may be significantly in excess of \$20 million. There is overlap between the Hall Proceeding and the Delaney Potential Claim and claimants in the Delaney Potential Claim may also be group members of the Hall Proceeding.

The period during which group members of the Hall Proceeding, the Babscay Proceeding and the Delaney Potential Claim acquired Shares in the Scheme Company overlaps to some extent. Group members of the Hall Proceeding are those who acquired an interest in Shares in the Scheme Company during the period from 30 March 2015 to 24 February 2016. Group members of the Babscay Proceeding are those who acquired an interest in Shares in the Scheme Company during the period from 24 August 2012 to 19 November 2015. Group members of the Delaney Potential Claim are those who acquired Shares in the Scheme Company during the period from 12 August 2014 to 29 February 2016. The claims made against the Scheme Company in each proceeding (or potential proceeding) differ, however, there is some degree of overlap in the allegations made.

These proceedings, and foreshadowed proceeding, are proposed to be dealt with under the Shareholder Claimant Scheme.

10.4 Claim commenced by S&G UK against Watchstone

On 13 June 2017, S&G UK filed and served a claim on Watchstone (formerly Quindell Plc) in the High Court of England and Wales for approximately £600 million. The Claim is based on allegations, including fraud, against Watchstone and its then senior management, concerning the purchase by the Scheme Company of Watchstone's Professional Services Division in 2015. The value of the Claim exceeds the net assets of Watchstone and the monies currently held in escrow by several hundred million pounds.

If the Scheme is implemented, the first \$40 million of any Watchstone Proceeds will be paid to the Scheme Company. The balance of any Watchstone Proceeds will be required to be applied towards the mandatory prepayment of the New GBP Super Senior Facility and the Convertible Notes prior to their maturity.

10.5 Management incentive plans for the Scheme Company and UK HoldCo

Following implementation of the Scheme, the Scheme Company, UK HoldCo and the Scheme Senior Lenders intend to implement a new management incentive plan on terms to be developed. It is the intention that the plans will allow for the economic equivalent of:

- (a) in respect of the Scheme Company and the Australian group, 10% of the Scheme Company's fully diluted share capital to be available to beneficiaries of the plan over time; and
- (b) in respect of UK HoldCo and the UK Group, 10% of UK HoldCo's fully diluted share capital to be available to beneficiaries of the plan over time.

10.6 Material interests of current Directors

The current Directors are:

- (a) John Skippen;
- (b) James M. Millar;
- (c) Tom Brown; and
- (d) Andrew Grech.

Except as disclosed below or elsewhere in this Explanatory Statement, as at the date of this Explanatory Statement, no Director has any interest, whether as a director, shareholder or creditor of the Scheme Company or otherwise, that is material in relation to the Scheme, and the Scheme has no effect on the interests of any Director that is different to the effect on the like interests of other persons.

The current Directors of the Scheme Company, and their interests in the Scheme Company, are as follows:

Director	Number of Shares	Percentage of Shares
John Skippen	100,000	0.03%
James M. Millar	20,000	0.006%
Tom Brown	0	0.00%
Andrew Grech	7,000,656	2.02%
Total	7,120,656	2.05%

In accordance with the Deed of Access, Indemnity and Insurance between the Scheme Company and each Director, the Scheme Company has indemnified the Directors to the

maximum extent permitted by law, against all liability incurred as a result of being a Director. This would include liability incurred in connection with the Scheme.

If the Scheme is implemented, the Security Trustees, the Senior Agents, each Scheme Senior Lender and, to the extent permitted by law, each Obligor, will release certain people who were directors, officers or employees of any Obligor at any time prior to the Implementation Date (inclusive), who sign a Released Obligor Individual Deed Poll, from any Claim or obligation relating to events occurring prior to the Implementation Date (inclusive), except to the extent that the released party has engaged in fraud or bad faith in respect of the matters to which that Claim relates.

10.7 Material interests of Scheme Administrators

The Scheme Administrators will be entitled to remuneration for their services as explained in **Section 7.27**. The hourly rates which will apply for the Scheme Administrators' services are set out in **Annexure H**.

10.8 Rights and liabilities of Shares in the Scheme Company

The Shares in the Scheme Company proposed to be issued to Scheme Senior Lenders will be of the same class and will, once issued, rank equally in all respects with existing Shares (including equal voting rights and equal rights to dividends, profits and capital).

The rights and liabilities attaching to the Shares are identical in all material respects to the terms of the existing Shares, subject to the transfer restrictions set out in **Section 7.22**.

The following is a summary of the principal rights of the holders of Shares. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Shareholders under the Constitution.

The Constitution may be inspected free of charge by appointment on normal Business Days from the date of this Explanatory Statement up to the Implementation Date at the registered office of the Scheme Company.

(a) Voting

Subject to any rights or restrictions for the time being attached to any class or classes of Shares, every Shareholder present in person or by proxy at a general meeting of the Scheme Company has one vote on show of hands and one vote per Share held on a poll.

A Shareholder who holds a Share which is not fully paid is entitled, on a poll, to a fraction of the number of votes equal to the proportion which the amount paid on those Shares bears to the total issue price of those Shares.

Where there are two or more joint holders of a Share, and more than one of them is present at a general meeting and tenders a vote in respect of the Share, the Scheme Company will only count the vote cast by the Shareholder whose name appears first in the Scheme Company's register of members.

(b) Meetings and notices

Each Shareholder is entitled to receive notice of, and attend and vote at, general meetings of the Scheme Company and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, the Corporations Act or the ASX Listing Rules.

The quorum for a meeting of members is at least two Shareholders who are entitled to attend and vote.

(c) **Dividends**

Subject to the Constitution, the terms of issue of the Shares and the Corporations Act, the Board may resolve to pay any dividends it considers appropriate and fix the time for payment.

Subject to the Constitution, each Share carries the right to participate in the dividend in the same proportion that the amount, for the time being, paid on the Share (excluding any amount paid in advance of calls) bears to the total issue price of the Share.

(d) **Transfers**

Subject to the Constitution, the Corporations Act, the ASX Listing Rules and the terms of any voluntary escrow arrangements, such as those set out in the Voluntary Escrow Deeds, the Shares are freely transferable.

The Shares may be transferred by a proper transfer effected in accordance with any computerised or electronic system established or recognised by the ASX Listing Rules, the Corporations Act or the ASX Settlement Rules for the purpose of facilitating dealings in Shares, by a written instrument of transfer which complies with the Constitution or by any other method permitted by the Corporations Act, the ASX Listing Rules or the ASX Settlement Rules.

The Board may refuse to register a transfer of Shares only if that refusal would not contravene the ASX Listing Rules or the ASX Settlement Rules. If the Board refuses to register a transfer, the Scheme Company must give written notice to the lodging party of that refusal, and the reasons for it, within five Business Days after the date on which the transfer was delivered to it. The Board must decline to register any transfer of Shares if the Constitution, the Corporations Act, the ASX Listing Rules or the ASX Settlement Rules forbid registration.

(e) **Directors to issue Shares**

Subject to the Corporations Act, the ASX Listing Rules, the Constitution and any special rights conferred on the holders of any Shares or class of Shares, the Board may issue, grant options over or otherwise dispose of unissued Shares to any person on the terms, with the rights, and at the times that the Board decides.

(f) **Unmarketable parcels**

Subject to the Constitution, the Corporations Act, the ASX Listing Rules and the ASX Settlement Rules, the Board may sell the Shares of a Shareholder who holds less than a marketable parcel of Shares.

(g) **Directors - appointment and removal**

The Constitution states that the minimum number of Directors is three Directors.

Directors are elected at an annual general meeting of the Scheme Company. A Director (other than the managing director) must retire from office at the third annual general meeting after the Director was elected or re-elected. An election of Directors must be held at each annual general meeting. If no election of Directors is scheduled to occur (by reason of rotation or otherwise), then the Director (other than the managing director) who has held office the longest must retire. A retiring Director is eligible for re-election, subject to certain restrictions.

Subject to the Corporations Act and to the maximum number of Directors for the time not being exceeded, the Board may also appoint a Director at any time, except during a general meeting, who will then automatically retire at the next annual general meeting of the Scheme Company and will be eligible for election at that meeting.

(h) **Powers of the Board**

The Board has the power to manage the business of the Scheme Company and may exercise all such powers of the Scheme Company which are not, by the Corporations Act, any other applicable law, the ASX Listing Rules or the Constitution, required to be exercised by the Scheme Company in a general meeting.

(i) **Winding-up**

Subject to the Constitution and the rights of holders of Shares with special rights in a winding-up, if the Scheme Company is wound up, Shareholders will be entitled to participate in any surplus assets of the Scheme Company in proportion to the percentage of the capital paid up on their Shares when the winding up begins.

(j) **Variation of rights**

Unless otherwise provided by the Constitution or the terms of issue of a class of shares, the rights attached to the shares in any class may only (subject to sections 246C and 246D of the Corporations Act) be varied or cancelled with the written consent of the holders of 75% of the issued shares of the affected class, or by special resolution passed at a separate meeting of the holders of the issued shares of the affected class.

(k) **Member liability**

As the Shares offered pursuant to the Scheme are fully paid ordinary shares in the Scheme Company, they are not subject to any calls for money by the Board and will therefore not become liable to forfeiture.

(l) **Capitalisation of profits**

The Scheme Company may capitalise profits, reserves or other amounts available for distribution to Shareholders. Subject to the Constitution and the terms of issue of the Shares, Shareholders are entitled to participate in a capital distribution in the same proportions in which they are entitled to participate in dividends.

(m) **Alteration of the Constitution**

The Constitution can only be amended by a special resolution passed by at least 75% of the total number of votes cast by Shareholders voting in person, by proxy, by attorney or in the case of corporate Shareholders, by corporate representative.

10.9 Rights and liabilities of UK HoldCo Shares

The following is a summary of the principal rights of the holders of UK HoldCo Shares. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of shareholders under the UK HoldCo Articles.

(a) **Powers and duties of the UK HoldCo Board**

The powers and duties of the board of directors of the UK HoldCo Board shall be consistent with English company law as applicable to a private limited company under the Companies Act and the model articles for private companies limited by shares contained in Schedule 1 of the Companies (Model Articles) Regulations 2008 (SI 2009/3229) (the **Model Articles**). The UK HoldCo Board shall have the power to manage UK HoldCo and delegate its authority where appropriate. UK HoldCo Directors shall declare interests that may conflict with the interests of UK HoldCo, and such interests may be authorised by the other UK HoldCo Directors subject to appropriate safeguards.

(b) **Composition of the UK HoldCo Board**

The minimum number of UK HoldCo Directors shall be three and the maximum number of UK HoldCo Directors shall be six.

The initial composition shall be as follows:

- (i) chief executive officer of the UK Operations (appointed by a Shareholder Majority);
- (ii) chief financial officer of the UK Operations (appointed by a Shareholder Majority);
- (iii) three UK HoldCo Directors nominated by Anchorage (each a **Majority Director**), one of whom shall be nominated as the chairman and will have the casting vote; and
- (iv) one UK HoldCo Director to be appointed by UK HoldCo shareholders (other than Anchorage) holding not less than 20% of UK HoldCo Shares (the **Minority Director**) (provided that if two separate UK HoldCo shareholders or groups of UK HoldCo shareholders each hold more than 20% of UK HoldCo's shares, then the UK HoldCo shareholder or group of UK HoldCo shareholders with the largest shareholding between the two shall appoint the Minority Director).

(c) **Appointment and removal of UK HoldCo Directors**

UK HoldCo Directors shall be re-elected by UK HoldCo shareholders annually.

UK HoldCo Directors shall be appointed and removed in accordance with English company law provided that:

- (i) the chief executive officer of UK Operations and the chief financial officer of UK Operations may be appointed, replaced or removed by a Shareholder Majority;
- (ii) each Majority Director may be appointed, replaced or removed in accordance with the instructions of Anchorage pursuant to its nomination rights. Anchorage shall have the right to nominate:
 - (A) three Majority Directors, if it, its affiliates or its related funds hold 50% or more of all outstanding UK HoldCo Shares (excluding any UK HoldCo Shares issued pursuant to any incentive plan or employee scheme of the UK Group);
 - (B) two Majority Directors, if it, its affiliates or its related funds hold 20% or more, but less than 50%, of all outstanding UK HoldCo Shares (excluding any UK HoldCo Shares issued pursuant to any incentive plan or employee scheme of the UK Group (including UK HoldCo and the UK Obligors)), and the remaining Majority Director may be appointed, replaced or removed by a Shareholder Majority (not including Anchorage, its affiliates or its related funds); or
 - (C) one Majority Director, if it holds less than 20% of all outstanding UK HoldCo Shares (excluding any UK HoldCo Shares issued pursuant to any incentive plan or employee scheme of the UK Group) and the remaining two Majority Directors may be appointed, replaced or removed by a Shareholder Majority (not including Anchorage, its affiliates or its related funds);
- (iii) the Minority Director shall be appointed, re-appointed or removed by UK HoldCo shareholders other than Anchorage, its affiliates or its related funds holding not less than 20% of all outstanding UK HoldCo Shares (provided that if two or more separate UK HoldCo shareholders or groups

of UK HoldCo shareholders each holding more than 20% of UK HoldCo's shares then the UK HoldCo shareholder or group of UK HoldCo shareholders with the largest shareholding between the two shall appoint the Minority Director); and

- (i) the chairman shall be:
 - (A) a Majority Director nominated by Anchorage if it has the right to nominate three Majority Directors; or
 - (B) otherwise, nominated by a Shareholder Majority.

(d) **Director Remuneration, Insurance and Indemnity**

The UK HoldCo Articles will include provisions concerning director remuneration, insurance cover and indemnity protection and shall be consistent with English company law as applicable to a private limited company under the Companies Act and the Model Articles. UK HoldCo Directors who are employees of a UK HoldCo shareholder shall not be remunerated or be entitled to fees for sitting on the UK HoldCo Board, but will be entitled to reimbursement of reasonable out-of-pocket expenses. The cash elements of UK HoldCo Directors' remuneration shall be determined by the UK HoldCo Board, and UK HoldCo may provide the UK HoldCo Directors with such insurance cover and indemnity protection as is permissible under the Companies Act.

(e) **Board meetings**

The UK HoldCo Articles will include provisions concerning board meetings (including, without limitation, as to frequency, location, quorum and voting) and shall be consistent with English company law as applicable to a private limited company under the Companies Act and the Model Articles.

Meetings may be called by notice to the other UK HoldCo Directors at a place and time specified in the notice of meeting.

The quorum for any meeting shall be:

- (i) two Majority Directors, the Minority Director and the CEO; or
- (ii) if a quorum under **Section 10.9(e)(i)** is not achieved and the meeting is deferred and reconvened having met the conditions that:
 - (A) 5 days' notice has been given; and
 - (B) the meeting is held during normal business hours,then the quorum shall be two Majority Directors and the CEO.

The chairman shall have the discretion to adjourn the meeting, for example if the chairman considers that there are insufficient non-executive directors in attendance (despite the meeting being quorate). Decisions shall be by majority decision at the meeting or unanimous among all eligible directors. The chairman shall continue to have a casting vote in the event of an equality of votes on a resolution.

(f) **Committees of the UK HoldCo Board**

The UK HoldCo Board shall have the power to delegate its authority to committees as it deems appropriate. UK HoldCo shall maintain an 'Audit and Remuneration Committee' discharging similar functions as in the case of a listed company and with a similar composition (including an appropriate balance of non-executive directors).

(g) **Information sharing**

Majority Directors and the Minority Director shall be entitled to share information received as board member with the shareholder(s) that appointed him/her.

(h) **Supermajority shareholder approval for Supermajority Reserved Matters**

The following matters of UK HoldCo and in respect of the UK Operations (**Supermajority Reserved Matters**) shall require the approval of an 80% supermajority of shareholders in UK HoldCo or if the shareholder meeting to approve Supermajority Reserved Matters is adjourned to a date that is five Business Days or more after the date of the initial meeting, of all shareholders in UK HoldCo that are present and voting at the meeting, whether in person or by proxy, in each case constituted by at least one additional independent shareholder where that majority is formed by one individual shareholder and/or its related funds and/or affiliates:

- (i) acquisitions by any member of the UK Group which are not in the ordinary course of business (and for the avoidance of doubt, repurchases of group debt and equity shall be permitted as transactions in the ordinary course of business) and investments in joint ventures by the UK Group unless:
 - (A) the aggregate consideration for acquisitions and investment in joint ventures does not exceed £10 million (or its equivalent in other currencies) in any financial year; and
 - (B) immediately following such acquisition or investment, the pro-forma leverage of the UK Group (as defined in the UK Group's financing documentation) would not exceed a ratio of 1.5:1;
- (ii) disposals (excluding transactions in the ordinary course of business) which when aggregated with other such disposals exceed £10 million (or its equivalent in other currencies) in any financial year;
- (iii) equity issues (including the issue of any preferred shares) other than in connection with any manager / employee incentive plans in any member of the UK Group up to 10% of UK HoldCo Shares issued on a fully diluted basis;
- (iv) the amalgamation, demerger, merger or consolidation of any member of the UK Group (excluding internal restructures on a solvent basis); and
- (v) any amendment to the provisions set out in **paragraphs 10.9(h)(i) to 10.9(h)(iv)** above.

(i) **Majority shareholder approval for Reserved Matters**

The following matters of UK HoldCo and in respect of the UK Operations (**Reserved Matters**) will require the approval of UK HoldCo's shareholders. A 66 ⅔% majority of shareholders in UK HoldCo constituted by at least one additional independent shareholder where that majority is formed by one individual shareholder and/or its related funds and/or affiliates (**Shareholder Majority**) shall be required for:

- (i) any related party transaction which, when aggregated with other such transactions, exceeds £5 million (or its equivalent in other currencies) in any financial year (the definition of a related party transaction being the same as under Chapter 11 of the London Stock Exchange Listing Rules and subject to the same exceptions, except that the substantial shareholder threshold shall be 15% rather than 10%); and
- (ii) any amendment to the above provision in **Section 10.9(i)(i)**.

(j) **Initial share capital**

UK HoldCo's initial share capital will be one million ordinary shares (subject to any adjustments due to rounding) with par value of £0.000001 each.

(k) **Additional equity finance**

The UK HoldCo Articles will include provisions concerning the raising of additional equity finance consistent with English company law as applicable to a private limited company, save that pre-emption rights shall apply to the issue of any equity securities (including the issue of preferred shares) (whether for cash or non-cash consideration), save where dis-applied by special resolution of the UK HoldCo shareholders.

(l) **Transfers**

Provisions concerning the sale or other transfer of UK HoldCo Shares shall be subject to the arrangements under the Voluntary Escrow Deed.

Provisions relating to share and UK debt buybacks shall permit splitting of the staple at the point of repurchase to enable repurchase of UK HoldCo Shares and debt by the applicable issuers provided that the UK HoldCo Shares and debt bought back by the applicable issuers shall be the same proportion of the total UK HoldCo Shares or debt outstanding (as applicable).

In addition, a direct competitor of the UK Group shall be prohibited from acquiring shares in any member of the UK Group, unless such transfer is approved in advance by the UK HoldCo Board.

(m) **Tag along rights**

The UK HoldCo Articles will include tag along provisions which provide that a person or persons must not transfer (or undertake a series of transfers) of UK HoldCo Shares which result in another person (together with its concert parties) holding 45% or more of the UK HoldCo Shares unless the purchaser has made an offer to each other UK HoldCo shareholder (other than the selling shareholders) to buy all (but not some only) of their UK HoldCo Shares and any stapled debt on no less favourable terms than the financial terms for the proposed transfer that triggered the tag offer, or if more favourable, the terms of any other purchase of UK HoldCo Shares by any member of the purchasing group in the preceding 12 months.

(n) **Drag along rights**

The UK HoldCo Articles will include drag along provisions which provide that on a proposed transfer (or series of transfers) which results in any person (together with its concert parties) holding 75% or more of the UK HoldCo Shares, all remaining shareholders shall, if a notice has been served on behalf of the purchaser, be required to transfer all the UK HoldCo Shares and stapled debt it owns to the relevant purchasing group. The consideration payable by the purchasing group shall be cash of an amount that results in receipt by the relevant shareholder of consideration on financial terms no less favourable for each UK HoldCo Share and stapled debt than the consideration in respect of the transfer that triggered the drag notice, or if more favourable, the terms of any other purchase of UK HoldCo Shares or stapled debt by the relevant buyer in the preceding 12 months (the more favourable financial terms being the **drag reference financial terms**), provided that if the drag reference financial terms include shares, stock, debenture or securities then a UK HoldCo shareholder may elect to receive such part of the consideration payable by the purchasing group in the form of equivalent shares, stock, debenture or securities.

These provisions only apply if the transfer (or series of transfers) in question are on arm's length terms and the purchasing group is not affiliated with, connected to, controlled by or acting in concert with any existing UK HoldCo shareholder or its related funds or affiliates.

(o) **Exit**

A Shareholder Majority shall be able to direct UK HoldCo to evaluate and investigate an initial public offering and may demand registration rights (or an equivalent) to facilitate offering and/or listing of investors' shares on or after an initial public offering/flotation.

(p) **Provision of financial information and other information**

The UK HoldCo Articles will include provisions relating to provision of financial information consistent with the UK Group's financing documentation, such that the same information is received by UK HoldCo shareholders at the same time (including quarterly reporting).

(q) **Meetings of UK HoldCo shareholders and approval of UK HoldCo shareholder reserved matters**

The UK HoldCo Articles will include provisions concerning general meetings of UK HoldCo and approval by UK HoldCo shareholders of shareholder reserved matters (being Reserved Matters and Supermajority Reserved Matters) consistent with English company law as applicable to a private limited company, save that the 10 Business Day period for approval of written resolutions shall be retained.

(r) **Confidentiality**

The UK HoldCo Articles will include confidentiality provisions in respect of information on shareholdings except where disclosure is required by law, orders of a competent court, bona fide permitted transferees, advisors, fund investors and managers and auditors, which will be on customary loan market association terms.

10.10 Certified copy of Financial Statements

A certified copy of the financial statements in respect of the Scheme Company required by paragraph 8203(b) of Part 2 of Schedule 8 of the Corporations Regulations is set out at **Annexure E** to this Explanatory Statement.

10.11 Report as to the affairs of the Scheme Company – ASIC Form 507

The report and information in respect of the Scheme Company required by ASIC Form 507 and paragraph 8203(a) of Part 2 to Schedule 8 of the Corporations Regulations are set out at **Annexure F** to this Explanatory Statement.

10.12 Scheme Senior Lenders and debts owed to them

Paragraphs 8201(c), (d) and (e) of Part 2 of Schedule 8 of the Corporations Regulations require the Explanatory Statement to set out a list of:

- (a) the names of all known Scheme Senior Lenders and the debts owed to those Scheme Senior Lenders;
- (b) if a Scheme Senior Lender is known to be a guaranteed creditor – the name of the creditor and the amount of the debt owed; and
- (c) if a Scheme Senior Lender is known to be an internal creditor – the name of the creditor and the amount of the debt owed. There are no internal creditors.

This information is set out in **Annexure G** to this Explanatory Statement.

11 Procedures for voting at the Scheme Meeting

11.1 General

A Scheme Meeting will be held for the Senior Lenders of the Scheme Company to approve the Scheme.

The Scheme Meeting will commence at:

9.00 am on Tuesday, 28 November 2017

at

the Marriot Hotel, Corner of Exhibition Street and Lonsdale Street, Melbourne, Victoria 3000.

All present Senior Lenders will attend an address by the Chairperson of the Scheme Meeting during which Senior Lenders will have a reasonable opportunity to ask questions regarding the Scheme. It is then intended that the Senior Lenders will vote in respect of the Scheme between the Scheme Company and the Scheme Senior Lenders. However, the exact procedure may change.

Senior Lenders are encouraged to attend the Scheme Meeting.

11.2 Classes of Senior Lenders

In making its orders under section 411(1) of the Corporations Act to convene the Scheme Meeting, the Court did not order that the Senior Lenders be divided into separate classes. As such all Senior Lenders will vote as one class.

11.3 Who is entitled to vote at the Scheme Meeting?

The time for determining eligibility to vote at the Scheme Meeting is 7.00 pm on 26 November 2017, being the Voting Entitlement Record Date. Only those Senior Lenders of the Scheme Company who are Senior Lenders at that time will be eligible to vote at the Scheme Meeting.

Voting is not compulsory. However, Senior Lenders who do not vote at the Scheme Meeting will still be bound by the Scheme, provided that the Scheme is approved by the Requisite Majority of Senior Lenders and approved by the Court.

Voting at the Scheme Meeting will be conducted by poll.

11.4 How to vote at the Scheme Meeting

Senior Lenders as at the Voting Entitlement Record Date are entitled to attend the Scheme Meeting and vote in person or by proxy or attorney. In each case, Senior Lenders will need to complete a Voting Proof of Debt Form as set out in **Annexure I** to this Explanatory Statement, in accordance with **Section 11.7** and the instructions on the form so that it is received by the Chairperson by 7.00 pm on 26 November 2017 in order to establish the amount of the relevant Senior Lender's Claim against the Scheme Company for voting purposes.

Senior Lenders should also consider **Section 11.5** below in relation to the valuation of Voting Proof of Debt Forms by the Chairperson.

In the event the Scheme is consummated, Senior Lenders who did not complete a Proxy Form will be required to make the appropriate U.S. securities law representations before receiving any Scheme Securities, as detailed under the heading "United States" in **Section 1.13** of the Explanatory Statement.

(a) **Voting in person**

Senior Lenders who wish to vote in person on the Scheme should attend the Scheme Meeting.

Corporate Senior Lenders may appoint a proxy, attorney or corporate representative to attend and vote at the Scheme Meeting on their behalf. Any attorney or corporate representative should bring to the Scheme Meeting evidence of his or her appointment, including the authority under which the appointment was made.

(b) **Voting by proxy, attorney or corporate representative**

If you cannot attend the Scheme Meeting and wish to vote, you may vote by proxy or by attorney, or in the case of a corporate Senior Lender, by corporate representative in accordance with section 250D of the Corporations Act.

If you appoint a proxy, you will need to complete and lodge a Proxy Form as set out in **Annexure C** to this Explanatory Statement, in accordance with the instructions on the form, so that it is received by the Chairperson by 7.00 pm on 26 November 2017.

Any attorney or corporate representative should bring to the Scheme Meeting evidence of his or her appointment, including the authority under which the appointment was made.

11.5 Valuation of Claims for voting at the Scheme Meeting

The Chairperson of the Scheme Meeting has power to admit (wholly or in part) or reject a proof of debt or Claim, for the purposes of voting at the Scheme Meeting.

The Chairperson will make his assessment based on:

- (a) information provided by each Senior Lender as to the Aggregate Senior Amount of each such Senior Lender's holding of debt;
- (b) any information made available to the Chairperson by the Senior Agent (Aus); and
- (c) any other information available to the Chairperson.

Although a Senior Lender is required to provide details of the Security held by it, a Senior Lender is entitled to vote for the full amount of the admitted Claim and need not deduct the value of its security.

Any Senior Lender who is aggrieved by the Chairperson's decision to admit or reject (in whole or in part) a Voting Proof of Debt Form or Claim for voting purposes may appeal against that decision to the Court at the place and time scheduled for the Second Court Date which is 10.15 am (Melbourne time) on 14 December 2017.

Any adjudication or estimate of a Senior Lender's Claim against the Scheme Company will be relevant for voting purposes only and does not constitute an admission of the existence or amount of the Senior Lender's Claim against the Scheme Company or any other person, and will not bind the Scheme Company or the Senior Lender for any other purpose.

In the event of voluntary administration or liquidation of the Scheme Company, the voluntary administrator or liquidator may adjudicate upon the Senior Lender's Claim, if any, on a different basis than that which is used to adjudicate upon the Senior Lender's Claim for the purpose of voting at the Scheme Meeting, and therefore may admit Claims for a higher or lower amount. Senior Lenders are encouraged to obtain their own advice regarding the possible treatment of their Claims in a voluntary administration or liquidation scenario.

11.6 Modification of Scheme at Scheme Meeting

Senior Lenders may propose modifications to the Scheme at the Scheme Meeting prior to the passing of the Resolution to approve the Scheme. However, Senior Lenders should be aware that there are risks associated with modifying the terms of the Scheme. For more detail on these risks, refer to **Section 7.26**.

11.7 Notices, documents or questions for the Scheme Company or the Chairperson

Completed Proxy Forms and Voting Proof of Debt Forms should be lodged in accordance with the instructions on the forms.

All questions in relation to the Scheme Meeting, including completion and lodgement of Proxy Forms and Voting Proof of Debt Forms, should be directed to:

Attention: Ms Kirsten Morrison
General Counsel and Company Secretary
Slater & Gordon Limited
485 La Trobe Street
Melbourne, Victoria 3000
or by email to:
Company.Secretary@slatergordon.com.au

12 Dictionary

12.1 Definitions

In this document:

“Aggregate Senior Amount” means, in respect of a Scheme Senior Lender, the aggregate amount of any principal and interest amount outstanding owing by the Scheme Company and S&G UK to that Scheme Senior Lender, whether actually or contingently, under the Senior Facilities immediately prior to the commencement of Step 1 (Deeds Poll) on the Implementation Date.

“Anchorage” means Anchorage Capital Group, L.L.C. and its affiliates and funds managed by it (and their affiliates), including AIO V Finance (Ireland) Designated Activity Company, which will be the holder of Shares to which Anchorage is entitled under this Scheme.

“ASIC” means the Australian Securities and Investments Commission.

“ASX” means ASX Limited or the financial market operated by ASX Limited.

“ASX Listing Rules” means the official listing rules of ASX.

“ASX Settlement Rules” means the official settlement rules of ASX.

“AUD” means Australian Dollars.

“Australian Group” means the Scheme Company and its Australian Subsidiaries.

“Australian Obligor” means an Obligor that was incorporated in Australia.

“Australian Operations” means the Group’s business conducted in Australia.

“Australian Transactional Facilities Documents” means any Transactional Facilities Document provided to an Australian Obligor.

“Babscay Proceeding” means the proceeding commenced by Babscay Pty Ltd on 19 June 2017 against the Scheme Company in the Federal Court of Australia numbered VID659 of 2017.

“Board” means the board of directors of the Scheme Company.

“Business Day” means any day that banks are open for business in Melbourne.

“Business Separation Agreement” means the *‘Business Separation Agreement’* (or similar document) to be entered into between, among others, the Scheme Company, UK HoldCo and S&G UK in relation to the separation of the Scheme Company’s Australian and UK Operations, in respect of which each party has duly executed its counterpart and is holding such counterpart in escrow until the implementation of Step 11 (Business Separation Agreement) of the Scheme.

“Calculation Date” means the second Business Day after the Effective Date.

“Chairperson” means the Board chair of Slater & Gordon, Mr John Skippen or, if he is unavailable, Mr James M. Millar who has been appointed to chair the Scheme Meeting.

“Claim” means in relation to any person, any allegation, notice, Costs, debt, cause of action, liability, claim, proceeding, suit or demand of any nature howsoever arising and whether present or future, fixed or unascertained, actual or contingent or otherwise whether at law, in equity, under statute or otherwise.

“Company Secretary” means the company secretary of the Scheme Company, Ms Kirsten Morrison.

“Competing Proposal” has the meaning given to that term in the Restructuring Support Deed.

“Conditions Precedent” means the conditions precedent to the Scheme summarised in **Section 7.2** of this Explanatory Statement which must be satisfied in order for the Scheme to proceed.

“Constitution” means the Scheme Company’s constitution.

“Convertible Note Conversion Mechanics” means the conversion mechanics outlined in **Section 7.9(b)(iv)** of this Explanatory Statement.

“Convertible Note Deed” means the secured convertible loan note trust deed to be entered into between, among others, S&G UK as issuer and the Note Trustee (UK) in the form as agreed between the parties in accordance with the Scheme.

“Convertible Notes” means, as the case may be, any or all of the 250 million convertible notes to be issued (subject to any adjustments due to rounding) by S&G UK to Scheme Senior Lenders with an aggregate face value of £250 million (subject to any adjustments due to rounding) under the terms and conditions set out in the Convertible Note Deed in accordance with the Scheme.

“Corporations Act” means *Corporations Act 2001* (Cth).

“Corporations Regulations” means the *Corporations Regulations 2001* (Cth).

“Costs” means costs, charges, fees and expenses.

“Court” means the Federal Court of Australia (Victoria Division).

“Court Orders” means the orders of the Court:

- (a) approving the Scheme under section 411(4)(b) (and, if applicable, section 411(6) of the Corporations Act); or
- (b) giving effect to the Scheme or any provision of it.

“Deed of Access, Indemnity and Insurance” means each such deed of that name entered into between a Director and the Scheme Company.

“Deed Poll” means each of the following:

- (a) the Scheme Administrators Deed Poll;
- (b) the Obligors Deed Poll;
- (c) the Senior Agent Deeds Poll;
- (d) the Security Trustee Deeds Poll;
- (e) the Note Trustee (UK) Deed Poll;
- (f) Scheme Senior Lender Deed Poll;
- (g) UK HoldCo Deed Poll; and
- (h) the Released Obligor Individual Deed(s) Poll,

as the context requires, and **Deeds Poll** means all of them.

“Deferred Consideration” means, in respect of the transfer of 100% of the shares in S&G UK to UK HoldCo, the portion of the consideration which is a deferred cash payment of up to the Watchstone Entitlement Amount and is contingent upon receipt by UK HoldCo or one of its Subsidiaries of Watchstone Proceeds.

“Delaney Potential Claim” means Claims arising from or connected to the draft originating application and draft statement of claim prepared on behalf of the Delaney Potential Claimants and annexed to the affidavit of Robert Delaney sworn and dated 22 May 2017 filed in support of Mr Delaney’s application in the Hall Proceeding filed on the same date.

“Delaney Potential Claimants” means Robert Delaney and the group of Shareholders represented by ACA Lawyers who acquired Shares on or after 12 August 2014 and before 29 February 2016.

“Directors” means the directors appointed to the Scheme Company.

“Disqualified Person” means a person who is a citizen of, or domiciled or resident in, or subject to the laws of, any jurisdiction where the offer to issue to, or subscription by, such person of any Scheme Securities is prohibited by law or would, or would be likely to, result in the Scheme Company, S&G UK or any of their subsidiaries being required to comply with any filing, registration, disclosure or other onerous (as may be decided by the board of the Scheme Company, UK HoldCo or S&G UK at their sole discretion) requirement in such jurisdiction. Without limiting the foregoing and with respect to offers and sales of the Scheme Securities in the United States or to a US Person, a Disqualified Person is any Person who is not an “accredited investor” within the meaning of clauses (1), (2), (3), (7) or (8) of clause (a) of Rule 501 of Regulation D under the US Securities Act and with respect to offers and sales of Scheme Securities outside the United States, a US Person (as defined in Regulation S) is a Disqualified Person.

“Effective” means, when used in relation to this Scheme, the coming into effect, pursuant to section 411(10) of the Corporations Act, of the Second Court Orders.

“Effective Date” means the date on which the Scheme becomes Effective.

“Existing UK Security Amendment Documents” means each amendment deed or agreement pursuant to which:

- (a) the benefit of each Transaction Security granted by a UK Obligor is assigned to the Security Trustee (UK); and
 - (b) the terms of each Transaction Security granted by a UK Obligor is amended,
- in each case in the form as agreed in accordance with clause 3.1(f)(i) of the Scheme.

“Explanatory Statement” means this document and its appendices; that is, an information booklet approved by the Court and including the Scheme and an explanatory statement in accordance with the Corporations Act.

“FATA” means the *Foreign Acquisitions and Takeovers Act 1975* (Cth).

“Finance Documents” has the meaning given in the Syndicated Facility Agreement.

“FIRB” means the Foreign Investment Review Board.

“First Court Date” means the first date of the hearing of an application for the First Court Orders or, if the hearing of that application is adjourned, the date to which the hearing is adjourned.

“First Court Orders” has the meaning given to that term in the Scheme.

“FY19” means the financial year ending 30 June 2019.

“GBP” means the British Pound.

“Government Agency” means any government or representative of a government or any governmental, semi-governmental, administrative, fiscal, regulatory or judicial body, department, commission, authority, tribunal, agency, competition authority or entity and includes any minister (including, the Commonwealth Treasurer), ASIC, the Australian Competition and Consumer Commission, the Australian Taxation Office, ASX, the UK Financial Conduct Authority, the Solicitors Regulation Authority of England and Wales and any regulatory organisation established under statute or any stock exchange.

“Group” means the Scheme Company and its Subsidiaries.

“Group Entity” means the Scheme Company or a Subsidiary of the Scheme Company.

“GST” has the meaning given to that term in the GST Act.

“GST Act” means the Act known as *A New Tax System (Goods and Services Tax) Act 1999* (Cth).

“Hall Proceeding” means the representative proceeding commenced on 12 October 2016 by Matthew Hall in the Federal Court of Australia, being proceeding No. VID1213 of 2016, on behalf of himself and the Hall Proceeding Claimants.

“Hall Proceeding Claimants” means Matthew Hall and the group members, as defined in paragraph 1 of the statement of claim dated 12 October 2016 filed in the Hall Proceeding including any amendments to that statement of claim.

“Hall Proceeding Settlement” means the binding settlement between Matthew Hall and the Scheme Company, among others, in respect of the Hall Proceeding as described in the deed executed between the parties and dated 21 September 2017.

“Hedging Agreement” has the meaning given in the Syndicated Facility Agreement.

“Implementation Date” means the earlier of:

- (a) the fifth Business Day after the Effective Date, except in the case where the Implementation Date would fall on a date between 24 December 2017 and 3 January 2018 (inclusive), in which case the Implementation Date will be 5 January 2018; and
- (b) the Sunset Date,

but in any event not earlier than the Business Day after the Calculation Date.

“Incorporated Legal Practice” has the meaning given to that term in the Schedule 1 of the *Legal Profession Uniform Law Application Act 2014* (Vic).

“Incremental Facilities Relevant Proportion” means in relation to a Participating Incremental Facilities Lender, the fraction (expressed as a percentage) that represents its pro rata participation in the Super Senior Incremental Facilities, as calculated where the numerator is that Participating Incremental Facilities Lender’s commitment under the Super Senior Incremental Facilities and the denominator is the total aggregate commitments of all Participating Incremental Facilities Lenders under the Super Senior Incremental Facilities.

“Incremental Facility Commitment Fee” means, in respect of the Participating Incremental Facilities Lenders, a commitment fee equal to:

- (a) 10% of the total number of Shares that will be on issue immediately following implementation of the Scheme; and
- (b) 10% of the total number of UK HoldCo Shares that will be on issue immediately following implementation of the Scheme,

in each case and for the avoidance of doubt, inclusive of the total number of Shares or UK HoldCo Shares (as applicable) that will constitute the Incremental Facility Commitment Fee.

“Independent Expert” means KPMG.

“Independent Expert Information” consists of the information in **Section 9** and the Independent Expert’s Report at **Annexure D** to this Explanatory Statement.

“Independent Expert’s Report” means the report of KPMG attached at **Annexure D** to this Explanatory Statement.

“IP Deed” means the trade mark licence agreement to be entered into prior to the Second Court Date between the Scheme Company and S&G UK in respect of the licence of certain trade marks by the Scheme Company to S&G UK.

“KPMG” means KPMG Corporate Finance, a division of KPMG Financial Advisory Services (Australia) Pty Ltd ABN 43 007 363 215.

“Material Contract” has the meaning given to that term in the Restructuring Support Deed.

“New Aggregate Senior Amount” means, in respect of a Scheme Senior Lender, the aggregate amount of any principal and interest amount outstanding owing by the Scheme Company to that Scheme Senior Lender, whether actually or contingently, under the SFA Facility immediately after Step 16 (Restated SFA).

"New AUD Super Senior Facility" means a new AUD denominated \$65 million senior secured term loan facility made available to the Scheme Company under the New AUD Super Senior Subscription Agreement, the terms of which are summarised in **Section 7.8(a)**.

"New AUD Super Senior Subscription Agreement" means the amended and restated subscription agreement (and corresponding loan note deed poll) to be entered into by, among others, the Scheme Company as borrower, each Australian Obligor, the Senior Agent (Aus) as agent, the Security Trustee (Aus) as security trustee and the Participating New Super Senior Facilities Senior Lenders as lenders, in the form as agreed between the parties to that agreement on or before the Effective Date.

"New Australian Financing Documents" means:

- (a) the Restated SFA;
- (b) the Super Senior Amendment Deed (New Facilities) annexing a form of the New AUD Super Senior Subscription Agreement;
- (c) the Security Trust Deed Amendment Deed;
- (d) the New Australian Intercreditor Agreement;
- (e) the Recognition Certificate; and
- (f) each other related or ancillary document or instrument to be entered into by the Australian Obligors, the Senior Agent (Aus), the Security Trustee (Aus) and/or the Scheme Senior Lenders (as the case may be).

"New Australian Intercreditor Agreement" means the intercreditor agreement between, among others, the Participating New Super Senior Facilities Senior Lenders, the Scheme Senior Lenders, the Australian Obligors, the Senior Agent (Aus) and the Security Trustee (Aus) in the form as agreed between the parties to that agreement on or before the Effective Date.

"New Directors" means the persons to be appointed to the Board on the Implementation Date in accordance with the Restructuring Support Deed.

"New Financing Documents" means the New Australian Financing Documents and the New UK Financing Documents.

"New GBP Super Senior Facility" means a new GBP denominated senior secured term loan facility to be made available to S&G UK under the New GBP Super Senior Facility Agreement for an aggregate principal amount equal to the GBP denominated commitments made available under the Super Senior GBP Incremental Facility, the terms of which are summarised in **Section 7.9(a)**.

"New GBP Super Senior Facility Agreement" means the secured facility agreement to be entered into by, among others, S&G UK as borrower, each UK Obligor, the Senior Agent (UK) as agent, the Security Trustee (UK) as security trustee and the Participating New Super Senior Facilities Senior Lenders as lenders, in the form as agreed between the parties to that agreement.

"New Money Scheme Senior Lender" means each Senior Lender that is required to contribute or to provide additional funds in order to meet its New Super Senior Facilities Relevant Proportion of the New Super Senior Facilities under any New Financing Document.

"New Share" means a Share to be issued to a Scheme Senior Lender in accordance with this Scheme, where the total number of New Shares to be issued under Step 18 (Tranche 1 - New 10% Share issue), Step 20 (Tranche 2 - New 20% Share issue) and Step 24 (Tranche 3 - New Remaining Share issue) is calculated in accordance with the following formula:

$$C = D/0.05 - D$$

Where:

C is the total number of New Shares to be issued, rounded down to the nearest whole number; and

D is the total number of Shares on issue as at the later of the Effective Date and immediately following the Share Consolidation.

"New Super Senior Facilities" means the New AUD Super Senior Facility and the New GBP Super Senior Facility.

"New Super Senior Facilities Relevant Proportion" means, in relation to a Participating New Super Senior Facilities Senior Lender, the fraction (expressed as a percentage) that represents its pro rata participation in the New Super Senior Facilities, as calculated where the numerator is that Participating New Super Senior Facilities Senior Lender's commitment under the New Super Senior Facilities and the denominator is the total aggregate commitments of all Participating New Super Senior Facilities Senior Lenders under the New Super Senior Facilities.

"New UK Financing Documents" means:

- (a) the Convertible Note Deed;
- (b) the New GBP Super Senior Facility Agreement;
- (c) the New UK Security Documents; and
- (d) each other related or ancillary document or instrument to be entered into by the UK Obligors, UK HoldCo, the Security Trustee (UK), the Senior Agent (UK), the Note Trustee (UK) and/or the Scheme Senior Lenders (as the case may be).

"New UK HoldCo Shares" means (subject to any adjustments due to rounding) 1,000,000 UK HoldCo Shares to be issued to the Scheme Senior Lenders in accordance with Step 10 (Tranche 1 - New UK HoldCo Share issue), Step 15 (Tranche 2 - New UK HoldCo Share issue) and Step 25 (Tranche 3 - New UK HoldCo Share issue).

"New UK Security Arrangements" means:

- (a) the amendment of existing security documents to which the UK Obligors are parties; and
- (b) the granting of new security by the UK Obligors and UK HoldCo to secure liabilities owed to, and for the benefit of, among others, the Scheme Senior Lenders under the New GBP Super Senior Facility and the Convertible Note Deed.

"New UK Security Documents" means the documents to be entered into evidencing, or giving effect to, the New UK Security Arrangements, including:

- (a) the New UK Security Trust and Intercreditor Agreements;
- (b) the Watchstone Entitlement Security Deed;
- (c) the Existing UK Security Amendment Documents; and
- (d) any other document designated as such by UK HoldCo and the Security Trustee (UK),

in the form as agreed between the parties in accordance with clause 3.1(f)(i) of the Scheme.

"New UK Security Trust and Intercreditor Agreements" means the intercreditor and security trust arrangement between, among others, the Security Trustee (UK), the Senior Agent (UK), the Note Trustee (UK), the Participating New Super Senior Facilities Senior Lenders, the Scheme Senior Lenders, the UK Obligors and UK HoldCo, to be documented in one or more agreement and in the form as agreed between the parties in accordance with clause 3.1(f)(i) of the Scheme.

"Note Trustee (UK)" means GLAS Trustees Limited (registered in England and Wales under number 08466032) or its affiliates in its capacity as the note trustee, registrar and/or paying agent in respect of the Convertible Notes..

"Note Trustee (UK) Deed Poll" a deed poll to be executed by the Note Trustee (UK) in substantially the form of Attachment G to the Scheme.

"Noteholder" means a holder of a Convertible Note.

"Notice of Meeting" means the notice of Scheme Meeting contained in **Annexure A** to this Explanatory Statement.

"Obligor" means a person who is an "Obligor" within the meaning contained in the Syndicated Facility Agreement as at the Effective Date.

"Obligors Deed Poll" means the deed poll to be executed by the Obligors in substantially the form of Attachment A to the Scheme.

"Original Super Senior Lender" means each Original Lender (as defined in the Super Senior Subscription Agreement).

"Participating Incremental Facilities Lender" means a Senior Lender that participated in the Super Senior Incremental Facilities.

"Participating New Super Senior Facilities Senior Lenders" means the Scheme Senior Lenders who elected to participate in the New Super Senior Facilities.

"Promissory Note" means a promissory note issued by the Scheme Senior Lenders in their Relevant Proportions to UK HoldCo with a face value of \$40 million.

"Proxy Form" means the form to be used by Senior Lenders to appoint a proxy to vote on their behalf at the Scheme Meeting of the Scheme Company in the form set out in **Annexure C** to this Explanatory Statement.

“PwC Tax Opinion” means the tax opinion(s) prepared by PricewaterhouseCoopers concerning the tax affairs of the Group (including the Tax consequences of the separation of the Group and all arrangements necessary or desirable to effect that separation) to be provided as a condition precedent to the Restructuring Support Deed.

“QIB” has the meaning given to the term “qualified institutional buyer” in Rule 144A under the US Securities Act.

“Recognition Certificate” means the recognition certificate that the Restated SFA and any other New Australian Finance Document is a ‘New Finance Document’ for the purposes of the Security Trust Deed.

“Regulatory Approval” means:

- (a) any approval, consent, authorisation, no objection, registration, filing, lodgement, permit, franchise, agreement, notarisation, certificate, permission, licence, direction, declaration, authority, waiver, modification or exemption from, by or with a Government Agency; or
- (b) in relation to anything that would be fully or partly prohibited or restricted by law if a Government Agency intervened or acted in any way within a specified period after lodgement, filing, registration or notification, the expiry of that period without intervention or action.

“Released Obligor Individual” means each person who was, at any time prior to the Implementation Date inclusive, a director, officer or employee of any Obligor (in their capacity as such) and who has executed, or at any time executes (including by way of joinder), a Released Obligor Individual Deed Poll.

“Released Obligor Individual Deed Poll” means a deed poll substantially in the form at Attachment H to the Scheme.

“Relevant Documents” has the meaning given to that term in the Scheme.

“Relevant Proportion” means, in relation to a Scheme Senior Lender, the fraction (expressed as a percentage) that represents its pro rata participation in the Senior Facilities, as calculated where the numerator is the Aggregate Senior Amount in respect of that Scheme Senior Lender and the denominator is the Total Aggregate Senior Amount.

“Representatives” has the meaning given to that term in the Restructuring Support Deed.

“Requisite Majority” means approval by a majority in number (more than 50%) of the Senior Lenders who are present and voting at the Scheme Meeting (either in person or by proxy, corporate representative or attorney), being a majority whose Claims together amount to at least 75% of the Secured Debt owing to the Senior Lenders present and voting at the Scheme Meeting (either in person or by proxy, corporate representative or attorney).

“Resolution” means the resolution for the purposes of section 411 of the *Corporations Act* 2001 (Cth) to approve the proposed creditors’ scheme of arrangement between the Scheme Company and its Senior Lenders.

“Restated SFA” means the Amended and Restated Syndicated Facility Agreement in the form as agreed between the parties to that agreement, with such amendment and restatement taking effect pursuant to Step 16 (Restated SFA) of the Scheme in relation to the SFA Facility.

“Restructuring Support Deed” means the restructuring support deed dated 29 June 2017, as amended and/or varied between the Scheme Company, each other Obligor and the Supporting Senior Lenders from time to time, including as most recently amended on 31 August 2017.

“Retiring Director” means the Directors as nominated by the Supporting Senior Lenders as at the date of the Restructuring Support Deed or any later date notified by the Supporting Senior Lenders.

“S&G Schemes” means this Scheme and the Shareholder Claimant Scheme.

“S&G UK” means Slater and Gordon (UK) 1 Limited registered in England and Wales under number 07895497.

“Scheme” means the compromise or arrangement under Part 5.1 of the Corporations Act between the Scheme Company and the Scheme Senior Lenders contained in **Annexure B** to this Explanatory Statement, subject to any alterations or conditions made or required by the Court.

“Scheme Administrators” means Mark Korda and Bryan Webster of KordaMentha or any other person who accepts the appointment to the role of scheme administrator, subject to section 411(7) of the Corporations Act provided, in each case, they have each executed a deed poll in substantially the same form as the Scheme Administrators Deed Poll.

“Scheme Administrators Deed Poll” means a deed poll executed by each Scheme Administrator dated 26 October 2017 in substantially the form of Attachment I to the Scheme.

“Scheme Company” means Slater & Gordon Limited ACN 097 297 400.

“Scheme Meeting” means the meeting of the Senior Lenders ordered by the Court to be convened under section 411(1) of the Corporations Act in relation to the Scheme, and includes any adjournment of that meeting.

“Scheme Securities” means the New Shares, UK HoldCo Shares and Convertible Notes issued under the Scheme.

“Scheme Senior Lender” means each person who is a Senior Lender as at the Effective Date, notwithstanding any disposal or transfer of any right under any Finance Document or any agreement to dispose of or transfer any such right entered into by that person after the Effective Date.

“Scheme Senior Lender Deed Poll” means a deed poll executed by the Scheme Administrators (on behalf of the Scheme Senior Lenders in accordance with the Scheme) substantially in the form of Attachment B to the Scheme.

“Second Court Date” means the first day of the hearing of an application made to the Court for the Court Orders, or, if the hearing of such application is adjourned for any reason, means the first day of the adjourned hearing.

“Second Court Orders” means the orders of the Court approving this Scheme under section 411(4)(b) (and, if applicable, section 411(6)) of the Corporations Act.

“Secured Debt” means, at any time, the total amount owing by the Scheme Company or any other Group Entity to the Senior Lenders under the Syndicated Facility Agreement.

“Security” has the meaning given in the Security Trust Deed.

“Security Trust Deed” has the meaning given in the Syndicated Facility Agreement.

“Security Trust Deed Amendment Deed” means the amendment deed entered into between, among others, the Scheme Senior Lenders (as beneficiaries), the Australian Obligors, the Senior Agent (Aus) and the Security Trustee (Aus) in the form as agreed between the parties to that agreement on or before the Effective Date amending the terms of the Security Trust Deed.

“Security Trustee (Aus)” means Global Loan Agency Services Australia Nominees Pty Ltd ACN 608 945 008 or its affiliate.

“Security Trustee (Aus) Deed Poll” means a deed poll to be executed by the Security Trustee (Aus) in substantially the form of Attachment D to the Scheme.

“Security Trustee (UK)” means GLAS Trust Corporation Limited (registered in England and Wales under number 07927175) or its affiliate in its capacity as the security trustee in respect of the New UK Security Documents.

“Security Trustee (UK) Deed Poll” means a deed poll to be executed by the Security Trustee (UK) in substantially the form of Attachment C to the Scheme.

“Security Trustee Deeds Poll” means the Security Trustee (Aus) Deed Poll and the Security Trustee (UK) Deed Poll.

“Security Trustees” means the Security Trustee (Aus) and the Security Trustee (UK).

“Senior Agent (Aus)” means Global Loan Agency Services Australia Pty Ltd ACN 608 829 303 or its affiliate.

“Senior Agent (Aus) Deed Poll” means a deed poll to be executed by the Senior Agent (Aus) substantially in the form of Attachment F to the Scheme.

“Senior Agent (UK)” means Global Loan Agency Services Limited (registered in England and Wales under number 08318601) or its affiliate in its capacity as the agent under the New GBP Super Senior Facility Agreement.

“Senior Agent (UK) Deed Poll” means a deed poll to be executed by the Senior Agent (UK) substantially in the form of Attachment E to the Scheme.

“Senior Agent Deeds Poll” means the Senior Agent (Aus) Deed Poll and the Senior Agent (UK) Deed Poll.

“Senior Agents” means the Senior Agent (Aus) and the Senior Agent (UK).

“Senior Facilities” means any of Facility A, Facility B, Facility C, Facility D and Facility E (as applicable), each as defined in the Syndicated Facility Agreement.

“Senior Lenders” means the “Lenders” as that term is defined in the Syndicated Facility Agreement.

“SFA Facility” means the AUD denominated secured term loan facility “F” totalling \$119,226,456.17 plus the amount of any additional interest capitalised or accrued but unpaid under the Senior Facilities from the period commencing on 30 June 2017 and

ending on the Implementation Date, and made available to the Scheme Company under the Restated SFA.

“Share” means fully paid ordinary shares in the capital of the Scheme Company.

“Share Consolidation” means the consolidation of Shares on a 100 for 1 basis prior to the Implementation Date.

“Shareholder” means each person entered into the register of members of the Scheme Company as the holder of a Share.

“Shareholder Claim” has the meaning given to that term in the Shareholder Claimant Scheme.

“Shareholder Claimant Scheme” means the compromise or arrangement under part 5.1 of the Corporations Act between the Scheme Company and the Shareholder Claimants, subject to any alterations or conditions made or required by the Court.

“Shareholder Claimants” has the meaning given to that term in the Shareholder Claimant Scheme and includes the Hall Proceeding Claimants, the claimants under the Babscay Proceeding and the claimants under the Delaney Potential Claim.

“Shareholder Meeting” means the general meeting of the Shareholders of the Scheme Company to be held on or around 6 December 2017 to consider and vote on, amongst other things, the issuing of Shares under the Scheme and the entry into the Voluntary Escrow Deeds by the Scheme Company.

“Step” means a step to implement the Scheme, as described in **Section 7.4** and Steps means all of them.

“Subsidiary” has the meaning given in the Corporations Act.

“Sunset Date” means 31 January 2018.

“Super Senior Amendment Deed (Incremental Facilities)” means an Amendment and Restatement Deed amending and restating the Super Senior Subscription Agreement entered into between the Scheme Company as borrower, the Senior Agent (Aus) as agent and the Security Trustee (Aus) as security trustee, and the super senior lenders prior to the Implementation Date in respect of the Super Senior Incremental Facilities.

“Super Senior Amendment Deed (New Facilities)” means an Amendment and Restatement Deed amending and restating the Super Senior Subscription Agreement entered into between, among others, the Scheme Company as borrower, the Obligors, the Senior Agent (Aus) as agent and the Security Trustee (Aus) as security trustee, and the Participating New Super Senior Facilities Senior Lenders on the Implementation Date in respect of the New AUD Super Senior Facility.

“Super Senior AUD Incremental Facility” means an Australian dollar tranche in an aggregate principal amount of \$25,000,000 to be provided by the Participating Incremental Facilities Lenders prior to the Implementation Date pursuant to the Super Senior Amendment Deed (Incremental Facilities).

“Super Senior Facilities” means the aggregate of:

- (a) the \$40 million working capital facility provided by the Senior Lenders (as announced on 5 May 2017);
- (b) the Super Senior AUD Incremental Facility; and
- (c) the Super Senior GBP Incremental Facility.

“Super Senior GBP Incremental Facility” means a GBP tranche in an aggregate principal amount of \$25,000,000 to be provided by the Participating Incremental Facilities Lenders prior to the Implementation Date pursuant to the Super Senior Amendment Deed (Incremental Facilities).

“Super Senior Incremental Facilities” means the Super Senior AUD Incremental Facility and the Super Senior GBP Incremental Facility.

“Super Senior Subscription Agreement” means the subscription agreement dated 28 April 2017 entered into between, among others, the Scheme Company as borrower, Westpac Banking Corporation as initial agent and security trustee, and each Original Super Senior Lender.

“Superior Proposal” has the meaning given to that term in the Restructuring Support Deed.

“Supporting Senior Lender” means each party listed as an original supporting lender in schedule 3 to the Restructuring Support Deed and each person who has executed and delivered a deed poll of accession under the Restructuring Support Deed, being all Senior Lenders.

“Syndicated Facility Agreement” means the syndicated facility agreement dated 29 May 2015, as restated on 23 December 2016, among the Scheme Company, each original lender as named therein, the Senior Agent (Aus) and the Security Trustee (Aus) and others, as amended and restated from time to time.

“Tax” means any tax, levy, impost, duty or other charge or withholding of a similar nature imposed by any Government Agency and includes, in connection with the foregoing, all interest, fines, penalties, charges or other amounts payable whether or not as a result of any failure to pay or any delay in paying.

“Third Party” has the meaning given to that term in the Restructuring Support Deed.

“Total Aggregate Senior Amount” means the aggregate amount of the Aggregate Senior Amounts for all Scheme Senior Lenders.

“Transaction Security” has the meaning given in the Syndicated Facility Agreement.

“Transactional Facilities” means the facilities and arrangements described in Section 3.1(c).

“Transactional Facilities Document” has the meaning given in the Syndicated Facility Agreement.

“UK Ancillary Finance Document” means:

- (a) each Hedging Agreement entered into by a UK Obligor; and
- (b) each Transactional Facilities Document entered into by a UK Obligor as borrower,

in each case, and which is intended to continue in operation and effect following implementation of the Scheme.

“UK Group” means UK HoldCo and its Subsidiaries.

“UK HoldCo” means Slater and Gordon UK Holdings Limited (registered in England and Wales under number 10977311).

“UK HoldCo Articles” means the articles of association to be adopted by UK HoldCo on the Implementation Date and which are in the form agreed by such number of Senior Lenders whose Claims as a Senior Lender represent at least 75% of the value of all Claims held by the Senior Lenders against the Scheme Company in their capacity as Senior Lenders by 8.00 am on the Second Court Date.

“UK HoldCo Board” means the board of directors of UK HoldCo.

“UK HoldCo” means a deed poll to be executed by UK HoldCo in substantially the form of Attachment J to the Scheme.

“UK HoldCo Director” means the directors to be appointed to the UK HoldCo Board on the Implementation Date in accordance with the terms of the UK HoldCo Articles and the Restructuring Support Deed.

“UK HoldCo Shares” means fully paid ordinary shares in the capital of UK HoldCo.

“UK Obligor” means an Obligor that is incorporated in the United Kingdom or Malta.

“UK Operations” means the Group’s business conducted in the United Kingdom and Malta.

“US” or **“United States”** means the United States of America, its territories and possessions, any state of the United States and the District of Columbia, and all other areas subject to its jurisdiction

“US Person” has the meaning given to it in Regulation S.

“Voluntary Escrow Deed” means a deed between each Scheme Senior Lender and (as the case requires):

- (a) the Scheme Company in respect of that Scheme Senior Lender’s New Shares, participation in the SFA Facility and participation in the New AUD Super Senior Facility (if any); and
- (b) each of UK HoldCo and S&G UK in respect of that Scheme Senior Lender’s UK HoldCo Shares, Convertible Notes and participation in the New GBP Super Senior Facility (if any),

in respect of which such number of Senior Lenders whose Claims as a Senior Lender represent at least 75% of the value of all Claims held by the Senior Lenders against the Scheme Company in their capacity as Senior Lenders and the Scheme Company have each confirmed that the voluntary escrow deeds are in final form as at 8.00 am on the Second Court Date.

“Voting Entitlement Record Date” means 7.00 pm on 26 November 2017.

“Voting Proof of Debt Form” means a proof of debt form in the form set out in **Annexure I** to this Explanatory Statement required to be lodged with the Chairperson by a Senior Lender for voting purposes for the Scheme Meeting for the Scheme Company.

“Walker Smith Way” means Walker Smith Way Limited (registered in England and Wales under number 07016439).

“Watchstone” means Watchstone Group Plc, previously Quindell Plc registered in England and Wales under number 05542221.

“Watchstone Acquisition” means the sale of Watchstone’s Professional Services Division by Watchstone to S&G UK pursuant to the Watchstone Sale Agreement.

“Watchstone Entitlement Amount” means \$40 million.

“Watchstone Entitlement Security” means security granted by S&G UK in favour of the Security Trustee (UK) for the benefit of, amongst others, the Scheme Company, the lenders under the New GBP Super Senior Facility and Noteholders over, among other things, the Watchstone Proceeds and any supplemental security interest in respect of the same assets granted to the Security Trustee (UK).

“Watchstone Entitlement Security Deed” means the security deed between the Security Trustee (UK) and S&G UK in respect of the Watchstone Entitlement Security.

“Watchstone Proceeds” means the proceeds received by S&G UK or any other member of the UK Group from Watchstone (or any of its related entities or associates) in connection with the Watchstone Acquisition, including the release of any proceeds from any escrow account held in connection with the Watchstone Sale Agreement or any other proceeds received on account of settling any Claim by S&G UK or any member of the UK Group against Watchstone or any other person in relation to the Watchstone Acquisition after deducting:

- (a) any reasonable expenses which are incurred by any member of the UK Group to persons who are not members of the UK Group in connection with the realisation or recovery of such proceeds; and
- (b) any Tax incurred and required to be paid by a member of the UK Group (as reasonably determined by the relevant member of the UK Group on the basis of existing rates and taking into account any available credit, deduction or allowance).

“Watchstone Sale Agreement” means the share purchase agreement between Watchstone, the Scheme Company and S&G UK dated 29 March 2015 in respect of the Watchstone Acquisition.

12.2 Construction

Unless expressed to the contrary, in this document:

- (a) words in the singular include the plural and vice versa;
- (b) any gender includes the other genders;
- (c) if a word or phrase is defined its other grammatical forms have corresponding meanings;
- (d) **includes** means includes without limitation;
- (e) no rule of construction will apply to a clause to the disadvantage of a party merely because that party put forward the clause or would otherwise benefit from it;
- (f) a reference to:
 - (i) a person includes a partnership, joint venture, unincorporated association, corporation and a government or statutory body or authority;

- (ii) a person includes the person's legal personal representatives, successors, assigns and persons substituted by novation;
 - (iii) any legislation includes subordinate legislation under it and includes that legislation and subordinate legislation as modified or replaced;
 - (iv) an obligation includes a warranty or representation and a reference to a failure to comply with an obligation includes a breach of warranty or representation;
 - (v) a right includes a benefit, remedy, discretion or power;
 - (vi) time is the local time in Melbourne;
 - (vii) **\$** or **dollars** is a reference to Australian currency;
 - (viii) this or any other document includes the document as novated, varied or replaced and despite any change in the identity of the parties;
 - (ix) writing includes any mode of representing or reproducing words in tangible and permanently visible form, and includes fax transmissions;
 - (x) this document includes all schedules and annexures to it; and
 - (xi) a clause, schedule or annexure is a reference to a clause, schedule or annexure, as the case may be, of this document; and
- (g) where time is to be calculated by reference to a day or event, that day or the day of that event is excluded.

12.3 Headings

Headings do not affect the interpretation of this document.

ANNEXURE A – NOTICE OF MEETING

NOTICE OF MEETING TO CONSIDER PROPOSED SCHEME OF ARRANGEMENT

TO the Senior Lenders of **Slater & Gordon Ltd ACN 097 297 400 (Company)**

Pursuant to subsection 411(1) of the *Corporations Act 2001* (Cth), the Federal Court of Australia has ordered that the Scheme Company convene a meeting of the Senior Lenders for the purpose of considering and, if thought fit, agreeing, with or without modification, to a scheme of arrangement between the Scheme Senior Lenders and the Scheme Company.

NOTICE IS HEREBY GIVEN that a meeting of the Senior Lenders of the Scheme Company will be held at the Marriott Hotel, Corner of Exhibition Street and Lonsdale Street, Melbourne, Victoria 3000 on Tuesday, 28 November 2017 commencing at 9.00 am (Melbourne time).

For further information, Senior Lenders should refer to the Explanatory Statement of which this Notice of Meeting forms a part, as is required by section 412 of the *Corporations Act 2001* (Cth), and which contains a copy of the scheme of arrangement.

Capitalised terms used in this Notice of Meeting have the same meaning as in the Explanatory Statement unless otherwise defined in this Notice of Meeting.

AGENDA

- 1 Address by the Chairperson of the Scheme Meeting and joint question and answer session for all Senior Lenders of the Scheme Company.
- 2 Resolution to be proposed to the meeting of Senior Lenders:
To consider and, if thought fit, resolve that pursuant to and in accordance with section 411 of the Corporations Act 2001 (Cth), the scheme of arrangement proposed between the Scheme Company and its Senior Lenders, as contained in and more particularly described in the Explanatory Statement of which the notice convening this meeting forms part, is agreed to (with or without alterations or conditions as approved by the Court, provided that such alterations or conditions do not change the substance of the Scheme, including the Steps, in any material respect).

ENTITLEMENT TO VOTE AND PROXY FORM

The time for determining eligibility to vote at each meeting is 26 November 2017 at 7.00 pm (Melbourne time), being the Voting Entitlement Record Date. Only those Senior Lenders who are Senior Lenders at that time, and who have lodged a Voting Proof of Debt Form (described below), will be entitled to attend and vote at the Scheme Meeting.

You may attend a Scheme Meeting at which you are entitled to vote in person, by attorney, or send a completed Proxy Form appointing a proxy to attend in your place. Any attorney or corporate representative should bring to the Scheme Meeting evidence of his or her appointment including any authority under which the appointment was made. If you wish to vote (in person or by proxy, attorney or corporate representative), you must also lodge a Voting Proof of Debt Form. Proxy Forms and Voting Proof of Debt Forms should be received by 9.00 am (Melbourne time) on 26 November 2017. The Proxy Form is set out in **Annexure C** to the Explanatory Statement and the Voting Proof of Debt Form is set out in **Annexure I** to the Explanatory Statement.

The Explanatory Statement contains details for lodgement of the Proxy Form and Voting Proof of Debt Form.

CHAIRPERSON

The Court has directed that Mr John Skippen act as Chairperson of the meeting (if Mr John Skippen is unable or unwilling to attend, Mr James M. Millar is to act as chairperson of the meetings) and has directed the Chairperson to report the result of the Resolution to the Court.

Dated 30 October 2017

By order of the Court and the Board of the Scheme Company

*sign
here* ►



Director

*print
name*

JOHN SKIPPEN

SENIOR LENDERS SHOULD READ AND CAREFULLY CONSIDER THE EXPLANATORY STATEMENT FOR THE SCHEME OF ARRANGEMENT IN ITS ENTIRETY, TAKE PROFESSIONAL ADVICE AND CONSULT WITH THEIR PROFESSIONAL ADVISERS WHEN MAKING ANY DECISION IN CONNECTION WITH THE SCHEME, INCLUDING DECIDING WHETHER OR NOT TO VOTE IN FAVOUR OF THE SCHEME OF ARRANGEMENT.

ANNEXURE B - SCHEME OF ARRANGEMENT

Scheme of Arrangement - Scheme Senior Lenders

Slater & Gordon Limited ACN 097 297 400
The Scheme Senior Lenders

Arnold Bloch Leibler
Lawyers and Advisers

Level 21 333 Collins Street | **Melbourne** | Victoria 3000 Australia
Level 24 Chifley Tower 2 Chifley Square | **Sydney** | NSW 2000 Australia

www.abl.com.au

Ref: JAV 011902841
ABL/612577v25



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PARTIES

SLATER & GORDON LIMITED
ACN 097 297 400
of 485 La Trobe Street, Melbourne VIC
("Company")

and

THE SCHEME SENIOR LENDERS

BACKGROUND

- A This Scheme is proposed in connection with:
- (a) Claims against the Company held by the Scheme Senior Lenders under the Finance Documents; and
 - (b) certain arrangements in relation to the New Financing Documents.
- B Each Obligor, pursuant to the Obligors Deed Poll, has consented to this Scheme, agreed to be bound by this Scheme as if it were a party to this Scheme and undertaken to perform all obligations and actions attributed to it under this Scheme.
- C UK HoldCo, pursuant to the UK HoldCo Deed Poll, has consented to this Scheme, agreed to be bound by this Scheme as if it were a party to this Scheme and undertaken to perform all obligations and actions attributed to it under this Scheme.
- D The Scheme Administrators, pursuant to the Scheme Administrators Deed Poll, have consented to act as Scheme Administrators, consented to this Scheme, agreed to be bound by this Scheme as if they were a party to this Scheme and undertaken to perform all obligations and actions attributed to the Scheme Administrators under this Scheme.
- E Each of the Security Trustees, the Senior Agents and the Note Trustee (UK) has undertaken that once this Scheme becomes Effective, and immediately after it has received the instructions referred to in or contemplated by this Scheme and the satisfaction of each condition to its undertaking, each of the Security Trustees, the Senior Agents and the Note Trustee (UK) will execute the Deed Poll relevant to it, pursuant to which it will consent to this Scheme, agree to be bound by this Scheme as if it were a party to this Scheme and undertake to perform all obligations and actions attributed to it under this Scheme.

AGREED TERMS

1 Defined terms and interpretation

1.1 Definitions

In this Scheme, unless the context requires otherwise:

"Aggregate Senior Amount" means, in respect of a Scheme Senior Lender, the aggregate amount of any principal and interest amounts outstanding or owing by the Company and S&G UK to that Scheme Senior Lender, whether actually or contingently, under the Senior Facilities immediately prior to the commencement of Step 1 (Deeds Poll and Scheme Senior Lender information).

"ASIC" means the Australian Securities and Investments Commission.

"ASX" means ASX Limited or the financial market operated by ASX Limited.

"ASX Listing Rules" means the listing rules of the ASX, as waived or modified by ASX, in respect of the Company, the Scheme or otherwise.

"Australian Obligor" means an Obligor that is incorporated in Australia.

"Australian Transactional Facilities Document" means any Transactional Facilities Document provided to an Australian Obligor.

"Business Day" means any day that banks are open for business in Melbourne.

"Business Separation Agreement" means the *'Business Separation Agreement'* (or similar document) to be entered into between, among others, the Company, UK HoldCo and S&G UK in relation to the separation of the Company's Australian and UK operations, in respect of which each party has duly executed its counterpart and is holding such counterpart in escrow until the implementation of Step 11 (Business Separation Agreement) of this Scheme.

"Calculation Date" means the second Business Day after the Effective Date.

"Claim" means, in relation to any person, any allegation, notice, Costs, debt, cause of action, liability, claim, proceeding, suit or demand of any nature howsoever arising and whether present or future, fixed or unascertained, actual or contingent or otherwise whether at law, in equity, under statute or otherwise.

"Company" means Slater & Gordon Limited ACN 097 297 400.

"Company Board" means the board of directors of the Company.

"Constitution" means the constitution of the Company, as amended from time to time.

"Convertible Note Deed" means the secured convertible loan note trust deed to be entered into between, among others, S&G UK, as issuer and the Note Trustee (UK) in the form as agreed in accordance with clause 3.1(f)(i) which takes effect pursuant to Step 5 (Entry into Convertible Note Deed) of this Scheme.

"Convertible Notes" means, as the case may be, any or all of the 250,000,000 convertible notes (subject to any adjustments due to rounding) issued by S&G UK to the Scheme Senior Lenders with an aggregate face value of £250 million (subject to any

adjustments due to rounding) under the terms and conditions set out in the Convertible Note Deed in accordance with Step 5 (Entry into Convertible Note Deed) of this Scheme.

"Corporations Act" means the *Corporations Act 2001* (Cth).

"Costs" means costs, charges, fees and expenses.

"Court" means the Federal Court of Australia (Victoria Division).

"Deed Poll" means any of the:

- (a) Scheme Administrators Deed Poll;
- (b) Security Trustee Deeds Poll;
- (c) Senior Agent Deeds Poll;
- (d) Note Trustee (UK) Deed Poll;
- (e) Obligors Deed Poll;
- (f) UK HoldCo Deed Poll;
- (g) Scheme Senior Lenders Deed Poll; and
- (h) Released Obligor Individual Deed(s) Poll,

as the context requires, and **"Deeds Poll"** means all of them.

"Deferred Consideration" means, in respect of the S&G UK Share Sale Agreement, the portion of the consideration for the purchase of shares in S&G UK which is a deferred cash payment of up to the Watchstone Entitlement Amount and is contingent upon receipt by UK HoldCo or one of its subsidiaries of the Watchstone Proceeds.

"Demands" has the meaning given in clause 6.5(c).

"Effective" means, when used in relation to this Scheme, the coming into effect, pursuant to section 411(10) of the Corporations Act, of the Second Court Orders.

"Effective Date" means the date on which this Scheme becomes Effective.

"Existing UK Security Amendment Documents" means each amendment deed or agreement pursuant to which:

- (a) the benefit of each Transaction Security granted by a UK Obligor is assigned to the Security Trustee (UK); and
- (b) the terms of each Transaction Security granted by a UK Obligor is amended,

in each case in the form as agreed in accordance with clause 3.1(f)(i).

"Finance Documents" has the meaning given in the Syndicated Facility Agreement.

"Governmental Agency" means any government or representative of a government or any governmental, semi-governmental, administrative, fiscal, regulatory or judicial body, department, commission, authority, tribunal, agency, competition authority or entity and includes any minister (including, the Commonwealth Treasurer), ASIC, the Australian Competition and Consumer Commission, the Australian Taxation Office, ASX, the UK Financial Conduct Authority, the Solicitors Regulation Authority of England and Wales and any regulatory organisation established under statute or any stock exchange.

"Hall Proceeding Settlement" means the binding settlement between Matthew Hall and the Company dated 21 September 2017 in respect of the Federal Court of Australia Proceeding No. VID VIC 1213/2016 commenced on 12 October 2016 by Matthew Hall against the Company.

"Hedging Agreement" has the meaning given in the Syndicated Facility Agreement.

"Implementation Date" means the earlier of the:

- (a) fifth Business Day after the Effective Date, except in the case where the Implementation Date would fall on a date between 24 December 2017 and 3 January 2018 (inclusive), in which case the Implementation Date will be 5 January 2018; and
- (b) Sunset Date,

but, in any event, not earlier than the Business Day after the Calculation Date.

"Incremental Facilities Relevant Proportion" means in relation to a Participating Incremental Facilities Lender, the fraction (expressed as a percentage) that represents its pro-rata participation in the Super Senior Incremental Facilities, as calculated where the numerator is that Participating Incremental Facilities Lender's commitment under the Super Senior Incremental Facilities and the denominator is the total aggregate commitments of all Participating Incremental Facilities Lenders under the Super Senior Incremental Facilities.

"Incremental Facility Commitment Fee" means, in respect of the Participating Incremental Facilities Lenders, a commitment fee equal to:

- (a) 10% of the total number of Shares that will be on issue immediately following implementation of the Scheme; and
- (b) 10% of the total number of UK HoldCo Shares that will be on issue immediately following implementation of the Scheme,

in each case and for the avoidance of doubt, inclusive of the total number of Shares or UK HoldCo Shares (as applicable) that will constitute the Incremental Facility Commitment Fee.

"Input Tax Credits" has the meaning given to that term in *A New Tax System (Goods and Services Tax) Act 1999* (Cth).

"IP Deed" means the trade mark licence agreement to be entered into prior to the Second Court Date between the Company and S&G UK in respect of the licence of certain trade marks by the Company to S&G UK.

"Liabilities" has the meaning given in clause 6.5(a).

"Losses" has the meaning given in clause 6.5(b).

"New Aggregate Senior Amount" means, in respect of a Scheme Senior Lender, the aggregate amount of any principal and interest amounts outstanding or owing by the Company to that Scheme Senior Lender, whether actually or contingently, under the SFA Facility, immediately after Step 16 (Restated SFA).

"New AUD Super Senior Facility" means a new AUD denominated \$65,000,000 senior secured term loan facility made available to the Company under the New AUD Super Senior Subscription Agreement.

"New AUD Super Senior Subscription Agreement" means the amended and restated subscription agreement (and corresponding loan note deed poll) to be entered into by, among others, the Company as borrower, each Australian Obligor, the Senior Agent (Aus) as agent, the Security Trustee (Aus) as security trustee and the Participating New Super Senior Facilities Senior Lenders as lenders and annexed to the Super Senior Amendment Deed (New Facilities).

"New Australian Financing Documents" means:

- (a) the Restated SFA;
- (b) the Super Senior Amendment Deed (New Facilities) annexing a form of the New AUD Super Senior Subscription Agreement;
- (c) the Security Trust Deed Amendment Deed;
- (d) the New Australian Intercreditor Agreement;
- (e) the Recognition Certificate; and
- (f) each other related or ancillary document or instrument to be entered into by the Australian Obligors, the Senior Agent (Aus), the Security Trustee (Aus) and/or the Scheme Senior Lenders (as the case may be).

"New Australian Intercreditor Agreement" means the intercreditor agreement between, among others, the Participating New Super Senior Facilities Senior Lenders, the Scheme Senior Lenders, the Australian Obligors, the Senior Agent (Aus) and the Security Trustee (Aus) in the form as agreed between the parties in accordance with clause 3.1(f)(i).

"New Director" means the persons to be appointed to the Company Board on the Implementation Date in accordance with the Restructuring Support Deed.

"New Financing Documents" means the New Australian Financing Documents and the New UK Financing Documents.

"New GBP Super Senior Facility" means a new GBP denominated senior secured term loan facility made available to S&G UK under the New GBP Super Senior Facility Agreement for an aggregate principal amount equal to the GBP denominated commitments made available under the Super Senior GBP Incremental Facility.

"New GBP Super Senior Facility Agreement" means the secured facility agreement to be entered into by, among others, S&G UK as borrower, UK HoldCo, each other UK Obligor, the Senior Agent (UK) as agent, the Security Trustee (UK) as security trustee and the Participating New Super Senior Facilities Senior Lenders as lenders, in the form as agreed in accordance with clause 3.1(f)(i).

"New Money Scheme Senior Lender" means each Senior Lender that is required to contribute or provide additional funds in order to meet its New Super Senior Facilities Relevant Proportion of the New Super Senior Facilities under any New Financing Document.

"New Share" means a Share to be issued to a Scheme Senior Lender in accordance with this Scheme, where the total number of New Shares to be issued under Step 18 (Tranche 1 - New 10% Share issue), Step 20 (Tranche 2 - New 20% Share issue) and Step 24 (Tranche 3 - New Remaining Share issue) is calculated in accordance with the following formula:

$$C = D/0.05 - D$$

Where:

C is the total number of New Shares to be issued, rounded down to the nearest whole number

D is total number of Shares on issue as at the later of the Effective Date and immediately following the Share Consolidation.

"New Super Senior Facilities" means the New AUD Super Senior Facility and the New GBP Super Senior Facility.

"New Super Senior Facilities Relevant Proportion" means, in relation to a Participating New Super Senior Facilities Senior Lender, the fraction (expressed as a percentage) that represents its pro-rata participation in the New Super Senior Facilities, as calculated where the numerator is that Participating New Super Senior Facilities Senior Lender's commitment under the New Super Senior Facilities and the denominator is the total aggregate commitments of all Participating New Super Senior Facilities Senior Lenders under the New Super Senior Facilities.

"New UK Financing Documents" means:

- (a) the Convertible Note Deed;
- (b) the New GBP Super Senior Facility Agreement;
- (c) the New UK Security Documents; and
- (d) each other related or ancillary document or instrument to be entered into by the UK Obligors, UK HoldCo, the Security Trustee (UK), the Senior Agent (UK), the Note Trustee (UK) and/or the Scheme Senior Lenders (as the case may be).

"New UK HoldCo Shares" means (subject to any adjustments due to rounding) 1,000,000 UK HoldCo Shares to be issued to the Scheme Senior Lenders in accordance with Step 10 (Tranche 1 - New UK HoldCo Share issue), Step 15 (Tranche 2 - New UK HoldCo Share issue) and Step 25 (Tranche 3 - New UK HoldCo Share issue).

"New UK Security Arrangements" means:

- (a) the amendment of existing security documents to which the UK Obligors are parties; and
- (b) the granting of new security by the UK Obligors and UK HoldCo to secure the liabilities owed to, and for the benefit of, among others, the Scheme Senior Lenders under the New GBP Super Senior Facility and the Convertible Note Deed.

"New UK Security Documents" means the documents to be entered into evidencing, or giving effect to, the New UK Security Arrangements, including:

- (a) the New UK Security Trust and Intercreditor Agreements;
- (b) the Watchstone Entitlement Security Deed;
- (c) the Existing UK Security Amendment Documents; and
- (d) any other document designated as such by UK HoldCo and the Security Trustee (UK),

and in the form as agreed between the parties in accordance with clause 3.1(f)(i).

"New UK Security Trust and Intercreditor Agreements" means the intercreditor and security trust arrangement between, among others, the Security Trustee (UK), the Senior Agent (UK), the Note Trustee (UK), the Participating New Super Senior Facilities Senior Lenders, the Scheme Senior Lenders, the UK Obligors and UK HoldCo, to be documented in one or more agreement and in the form as agreed between the parties in accordance with clause 3.1(f)(i).

"Note Trustee (UK)" means GLAS Trustees Limited (registered in England and Wales under number 08466032) or its affiliates in its capacity as the note trustee, registrar and/or paying agent in respect of the Convertible Notes.

"Note Trustee (UK) Deed Poll" means a deed poll to be executed by the Note Trustee (UK) in substantially the form of Attachment G.

"Notice" has the meaning given in clause 9.

"Obligor" means a person who is an "Obligor" within the meaning contained in the Syndicated Facility Agreement as at the Effective Date.

"Obligors Deed Poll" means the deed poll executed by the Obligors dated [●] in substantially the form of Attachment K.

"Original Super Senior Lender" means each Original Lender (as defined in the Super Senior Subscription Agreement).

"Participating Incremental Facilities Lender" means a Senior Lender that participated in the Super Senior Incremental Facilities.

"Participating New Super Senior Facilities Senior Lender" means a Scheme Senior Lender that will participate in the New Super Senior Facilities in accordance with the terms of this Scheme.

"PPSA" means the Personal Property Securities Act 2009 (Cth).

"PPSR" means the Personal Property Securities Register established under the PPSA.

"Promissory Note" means a promissory note issued by the Scheme Senior Lenders in their Relevant Proportions to UK HoldCo with a face value of \$40 million.

"Recognition Certificate" means the recognition certificate that the Restated SFA and any other New Australian Finance Document are the 'New Finance Documents' for the purposes of the Security Trust Deed.

"Released Obligor Individual" means each person who was, at any time up to and including the Implementation Date, a director or officer of any Obligor (in their capacity as

such) and who has executed, or at any time executes (including by way of joinder), a Released Obligor Individual Deed Poll.

"Released Obligor Individual Deed Poll" means a deed poll substantially in the same form at Attachment H.

"Relevant Documents" means this Scheme and the:

- (a) Deeds Poll;
- (b) Promissory Note;
- (c) New Australian Financing Documents;
- (d) New UK Financing Documents;
- (e) S&G UK Share Sale Agreement;
- (f) Business Separation Agreement; and
- (g) IP Deed.

"Relevant Proportion" means, in relation to a Scheme Senior Lender, the fraction (expressed as a percentage) that represents its pro-rata participation in the Senior Facilities, as calculated where the numerator is the Aggregate Senior Amount in respect of that Scheme Senior Lender and the denominator is the Total Aggregate Senior Amount.

"Restated SFA" means the Amended and Restated Syndicated Facility Agreement in the form as agreed between the parties in accordance with clause 3.1(f)(i), with such amendment and restatement taking effect pursuant to Step 16 (Restated SFA) of this Scheme in relation to the SFA Facility.

"Restructuring Support Deed" means the Restructuring Support Deed dated 29 June 2017 as amended and/or varied between the Company, each other Obligor and the Senior Lenders from time to time, including as most recently amended on 31 August 2017.

"S&G UK" means Slater & Gordon (UK) 1 Limited (registered in England and Wales under number 07895497).

"S&G UK Share Sale Agreement" means the 'Share Sale Agreement' between the Company, UK HoldCo and S&G UK pursuant to which the Company transfers the shares in S&G UK and Walker Smith Way to UK HoldCo and S&G UK provides a limited guarantee of UK HoldCo's obligation to pay the purchase price (where such guarantee is limited to the Watchstone Entitlement Amount and secured by the Watchstone Entitlement Security).

"S&G UK Share Transfer Form" means the stock transfer form pursuant to which the shares held by the Company in S&G UK are transferred to UK HoldCo.

"Scheme" means the compromise or arrangement under Part 5.1 of the Corporations Act between the Company and the Scheme Senior Lenders as set out in this document, subject to any alterations or conditions made or required by the Court.

"Scheme Administrators" means Mark Korda and Bryan Webster of KordaMentha, or any other person who accepts the appointment to the role of Scheme Administrator, subject to section 411(7) of the Corporations Act provided, in each case, they have each executed a deed poll in substantially the same form as the Scheme Administrators Deed Poll.

"Scheme Administrators Deed Poll" means a deed poll executed by each Scheme Administrator dated 26 October 2017 in substantially the form of Attachment I.

"Scheme Meeting" means the meeting of Senior Lenders ordered by the Court to be convened under section 411(1) of the Corporations Act in relation to this Scheme, and includes any adjournment of that meeting.

"Scheme Senior Lender" means each person who is a Senior Lender as at the Effective Date, notwithstanding any disposal or transfer of any right under any Finance Document or any agreement to dispose of or transfer any such right entered into by that person after the Effective Date.

"Scheme Senior Lender Deed Poll" means a deed poll to be executed by the Scheme Administrators (on behalf of the Scheme Senior Lenders in accordance with clause 5.2) in substantially the form of Attachment B.

"Second Court Date" means the first day of the hearing of an application made to the Court for the Second Court Orders or, if the hearing of such application is adjourned for any reason, means the first day of the adjourned hearing.

"Second Court Orders" means the orders of the Court approving this Scheme under section 411(4)(b) (and, if applicable, section 411(6)) of the Corporations Act.

"Security Interest" has the meaning given in the Syndicated Facility Agreement.

"Security Trust Deed" has the meaning given in the Syndicated Facility Agreement.

"Security Trust Deed Amendment Deed" means the amendment deed entered into between, among others, the Scheme Senior Lenders (as beneficiaries), the Australian Obligors, the Senior Agent (Aus) and the Security Trustee (Aus) in the form as agreed between the parties to that agreement in accordance with clause 3.1(f)(i) amending the terms of the Security Trust Deed.

"Security Trustee (Aus)" means Global Loan Agency Services Australia Nominees Pty Ltd ACN 608 945 008 or its affiliate in its capacity as the security trustee under the Security Trust Deed.

"Security Trustee (Aus) Deed Poll" means a deed poll to be executed by the Security Trustee (Aus) in substantially the form of Attachment D.

"Security Trustee (UK)" means GLAS Trust Corporation Limited (registered in England and Wales under number 07927175) or its affiliate in its capacity as the security trustee in respect of the New UK Security Documents.

"Security Trustee (UK) Deed Poll" means a deed poll to be executed by the Security Trustee (UK) in substantially the form of Attachment C.

"Security Trustee Deeds Poll" means the Security Trustee (Aus) Deed Poll and the Security Trustee (UK) Deed Poll.

"Security Trustees" means the Security Trustee (Aus) and the Security Trustee (UK).

"Senior Agent (Aus)" means Global Loan Agency Services Australia Pty Ltd ACN 608 829 303.

"Senior Agent (Aus) Deed Poll" means a deed poll to be executed by the Senior Agent (Aus) in substantially the form of Attachment F.

"Senior Agent (UK)" means Global Loan Agency Services Limited (registered in England and Wales under number 08318601) or its affiliate in its capacity as the agent under the New GBP Super Senior Facility Agreement.

"Senior Agent (UK) Deed Poll" means a deed poll to be executed by the Senior Agent (UK) in substantially the form of Attachment E.

"Senior Agent Deeds Poll" means the Senior Agent (Aus) Deed Poll and the Senior Agent (UK) Deed Poll.

"Senior Agents" means the Senior Agent (Aus) and the Senior Agent (UK).

"Senior Facility" means any of Facility A, Facility B, Facility C, Facility D and Facility E (as applicable), each as defined in the Syndicated Facility Agreement.

"Senior Lenders" means the "Lenders" as that term is defined in the Syndicated Facility Agreement.

"SFA Facility" means the AUD denominated secured term loan facility "F" of an amount equal to the sum of totalling \$119,226,456.17 and the amount of any interest capitalised or accrued but unpaid under the Senior Facilities in the period commencing on 30 June 2017 and ending on the Implementation Date, and made available to the Company under the Restated SFA.

"Share Consolidation" means the consolidation of Shares on a 100 for 1 basis prior to the Implementation Date.

"Shareholder Claimants" has the meaning given to that term in the Shareholder Claimants Scheme.

"Shareholder Claimants Scheme" means the compromise or arrangement under Part 5.1 of the Corporations Act between the Company and the Shareholder Claimants, subject to any alterations or conditions made or required by the Court.

"Shares" means fully paid ordinary shares in the capital of the Company.

"Specific Claim" means any Claim arising out of or in connection with any breach of, or non-compliance with any provision of, a Relevant Document.

"Stamp Duty" means any stamp, transaction or registration duty or similar charge imposed by any Governmental Agency and includes any interest, fine, penalty, charge or other amount in respect of the above.

"Standstill Period" has the meaning given in clause 7.1(a).

"Step" means any of Steps 1 (Deeds Poll and Scheme Senior Lender information) to 26 (Voluntary Escrow Deeds) set out in clause 4.5 and **"Steps"** means all of them.

"Sunset Date" means 31 January 2018.

"Super Senior Amendment Deed (Incremental Facilities)" means an Amendment and Restatement Deed amending and restating the Super Senior Subscription Agreement entered into between the Company as borrower, the Senior Agent (Aus) as agent and the Security Trustee (Aus) as security trustee, and the super senior lenders prior to the Implementation Date in respect of the Super Senior Incremental Facilities.

“Super Senior Amendment Deed (New Facilities)” means an Amendment and Restatement Deed amending and restating the Super Senior Subscription Agreement entered into between, among others, the Company as borrower, the Obligors, the Senior Agent (Aus) as agent and the Security Trustee (Aus) as security trustee, and the Participating New Super Senior Facilities Senior Lenders on the Implementation Date in respect of the New AUD Super Senior Facility.

“Super Senior AUD Incremental Facility” means an Australian dollar tranche in an aggregate principal amount of \$25,000,000 provided by the Participating Incremental Facilities Lenders prior to the Implementation Date pursuant to the Super Senior Amendment Deed (Incremental Facilities).

“Super Senior GBP Incremental Facility” means a GBP tranche in an aggregate principal amount of \$25,000,000 to be provided by the Participating Incremental Facilities Lenders prior to the Implementation Date pursuant to the Super Senior Amendment Deed (Incremental Facilities).

“Super Senior Incremental Facilities” means the Super Senior AUD Incremental Facility and the Super Senior GBP Incremental Facility.

“Super Senior Subscription Agreement” means the subscription agreement dated 28 April 2017 entered into between, among others, the Company as borrower, Westpac Banking Corporation as initial agent and security trustee, and each Original Super Senior Lender.

“Syndicated Facility Agreement” means the Syndicated Facility Agreement originally dated 29 May 2015 between the Company, the Senior Agent (Aus) and the Security Trustee (Aus) and others, as amended and restated from time to time up to the Effective Date.

“Tax” means any tax, levy, impost, duty or other charge or withholding of a similar nature imposed by any Governmental Agency and includes, in connection with the foregoing, all interest, fines, penalties, charges or other amounts payable whether or not as a result of any failure to pay or any delay in paying.

“Total Aggregate Senior Amount” means the aggregate amount of the Aggregate Senior Amounts for all Scheme Senior Lenders.

“Transaction Security” has the meaning given in the Syndicated Facility Agreement.

“Transactional Facilities Document” has the meaning given in the Syndicated Facility Agreement.

“UK Ancillary Finance Document” means:

- (a) each Hedging Agreement entered into by a UK Obligor; and
- (b) each Transactional Facilities Document entered into by a UK Obligor as borrower,

in each case, and which is intended to continue in operation and effect following implementation of this Scheme.

“UK HoldCo” means Slater and Gordon UK Holdings Limited (registered in England and Wales under number 10977311).

“UK HoldCo Articles” means the articles of association of UK HoldCo to be adopted by UK HoldCo on the Implementation Date and which is in the form agreed by such number of Senior Lenders whose Claims as a Senior Lender represent at least 75% of the value

of all Claims held by the Senior Lenders against the Company in their capacity as Senior Lenders by 8.00 am on the Second Court Date.

"UK HoldCo Board" means the board of directors of UK HoldCo.

"UK HoldCo Deed Poll" means a deed poll executed by UK HoldCo dated [●].

"UK HoldCo Directors" means the directors to be appointed to the UK HoldCo Board on the Implementation Date in accordance with the terms of the UK HoldCo Articles and the Restructuring Support Deed.

"UK HoldCo Shares" means fully paid ordinary shares in the capital of UK HoldCo.

"UK Obligor" means an Obligor that is incorporated in the United Kingdom or Malta.

"Voluntary Escrow Deed" means a deed between each Scheme Senior Lender and (as the case requires):

- (a) the Company in respect of that Scheme Senior Lender's New Shares, participation in the SFA Facility and participation in the New AUD Super Senior Facility (if any); or
- (b) each of UK HoldCo and S&G UK in respect of that Scheme Senior Lender's UK HoldCo Shares, Convertible Notes and participation in the New GBP Super Senior Facility (if any),

in respect of which such number of Senior Lenders whose Claims as a Senior Lender represent at least 75% of the value of all Claims held by the Senior Lenders against the Company in their capacity as Senior Lenders and the Company have each confirmed that the Voluntary Escrow Deeds are in final form as at 8.00 am on the Second Court Date.

"Walker Smith Way" means Walker Smith Way Limited (registered in England and Wales under number 07016439).

"Watchstone" means Watchstone Group Plc, previously Quindell Plc (registered in England and Wales under number 05542221).

"Watchstone Acquisition" means the purchase of Watchstone's Professional Services Division by S&G UK from Watchstone pursuant to the Watchstone Sale Agreement.

"Watchstone Entitlement Amount" means \$40 million.

"Watchstone Entitlement Security" means security granted by S&G UK in favour of the Security Trustee (UK) for the benefit of, amongst others, the Company, the lenders under the New GBP Super Senior Facility and holders of the Convertible Notes over, amongst other things, the Watchstone Proceeds and any supplemental Security Interest in respect of the same assets granted to the Security Trustee (UK).

"Watchstone Entitlement Security Deed" means the English law security deed dated as on or about the Completion Date and entered into between the Security Trustee (UK) and S&G UK, and any replacement or supplemental deed or document, evidencing or creating the Watchstone Entitlement Security.

"Watchstone Proceeds" means the proceeds received by S&G UK or any UK Obligor from Watchstone (or any of its related entities or associates) in connection with the Watchstone Acquisition, including the release of any proceeds from any escrow account held in connection with the Watchstone Sale Agreement or any other proceeds received

on account of settling any Claim by S&G or a UK Obligor against Watchstone or any other person in relation to the Watchstone Acquisition and after deducting:

- (a) any reasonable expenses which are incurred by any UK Obligor to persons who are not a UK Obligor in connection with the realisation or recovery of such proceeds; and
- (b) any Tax incurred and required to be paid by a UK Obligor (as reasonably determined by the relevant UK Obligor on the basis of existing rates and taking into account any available credit, deduction or allowance).

“Watchstone Sale Agreement” means the share purchase agreement between Watchstone, the Company and S&G UK dated 29 March 2015 in respect of the Watchstone Acquisition.

“WSW Share Transfer Form” means the stock transfer form pursuant to which the shares held by the Company in Walker Smith Way are transferred to UK HoldCo.

1.2 Interpretation

In this Scheme, unless the context requires otherwise:

- (a) the singular includes the plural and vice versa;
- (b) words denoting any gender include all genders;
- (c) where a word or phrase is defined, its other grammatical forms have a corresponding meaning;
- (d) a reference to a party, clause, paragraph, schedule or annexure is a reference to a party, clause, paragraph, schedule or annexure to or of this document;
- (e) a reference to this document includes any schedules or annexures;
- (f) headings are for convenience and do not affect interpretation;
- (g) the background or recitals to this document are adopted as and form part of this document;
- (h) a reference to any document or agreement includes a reference to that document or agreement as amended, novated, supplemented, varied or replaced from time to time;
- (i) a reference to “\$”, “A\$” or “dollar” is a reference to Australian currency;
- (j) a reference to a time is a reference to Australian Eastern Standard Time or Australian Eastern Daylight Time, whichever is appropriate;
- (k) a reference to a party or entity:
 - (i) includes its executors, administrators, successors, substitutes (including persons taking by novation) and permitted assigns; and
 - (ii) in a period prior to its appointment as that party, includes the party, person or entity who shall become that party in accordance with the Steps and the operation of this Scheme.
- (l) a reference to writing includes any method of representing words, figures or symbols in a permanent and visible form;
- (m) words and expressions denoting natural persons include bodies corporate, partnerships, associations, firms, governments and governmental authorities and agencies and vice versa;
- (n) a reference to any legislation or to any provision of any legislation includes:
 - (i) any modification or re-enactment of the legislation;

- (ii) any legislative provision substituted for, and all legislation, statutory instruments and regulations issued under, the legislation or provision; and
- (iii) where relevant, corresponding legislation in any Australian State or Territory;
- (o) no rule of construction applies to the disadvantage of a party because that party was responsible for the preparation of this document or any part of it; and
- (p) the words “including”, “for example”, “such as” or other similar expressions (in any form) are not words of limitation.

2 Third parties

2.1 Capacity of Security Trustee (Aus)

- (a) The Security Trustee (Aus) enters into and performs each Relevant Document to which it is a party and the transactions they contemplate only as the trustee of the trust constituted under the Security Trust Deed (in this clause, **Security Trust (Aus)**), except where expressly stated otherwise. This applies also in respect of any past and future conduct (including omissions) relating to each Relevant Document or those transactions.
- (b) Under and in connection with each Relevant Document and those transactions and conduct:
 - (i) the Security Trustee (Aus)’s liability (including for negligence) to parties is limited to the extent it can be satisfied out of the assets of the Security Trust (Aus). The Security Trustee (Aus) need not pay any such liability out of other assets;
 - (ii) another party may only do the following with respect to the Security Trustee (Aus) (but any resulting liability remains subject to the limitations in this clause):
 - (A) prove and participate in, and otherwise benefit from, any form of insolvency administration of the Security Trustee (Aus) but only with respect to Security Trust (Aus) assets;
 - (B) exercise rights and remedies with respect to Security Trust (Aus) assets, including set-off;
 - (C) enforce its security (if any) and exercise contractual rights; and
 - (D) bring any proceedings against the Security Trustee (Aus) seeking relief or orders that are not inconsistent with the limitations in this clause,
 and may not:
 - (E) bring other proceedings against the Security Trustee (Aus);
 - (F) take any steps to have the Security Trustee (Aus) placed in any form of insolvency administration or to have a receiver or receiver and manager appointed; or
 - (G) seek by any means (including set-off) to have a liability of the Security Trustee (Aus) to that party (including for negligence) satisfied out of any assets of the Security Trustee (Aus) other than Security Trust (Aus) assets.
- (c) Paragraphs (a) and (b) above apply despite any other provision in a Relevant Document but do not apply with respect to any liability of the Security Trustee (Aus) to another party (including for negligence) to the extent that the Security Trustee (Aus) has no right or power to have Security Trust (Aus) assets applied

towards satisfaction of that liability, or its right or power to do so is subject to a deduction, reduction, limit or requirement to make good, in either case because the relevant liability was incurred as a direct result of the Security Trustee (Aus)'s fraud, gross negligence or wilful default.

- (d) The limitation in paragraph (b)(i) above is to be disregarded for the purposes (but only for the purposes) of the rights and remedies described in paragraph (b)(ii) above, and interpreting a Relevant Document and any security for it, including determining the following:
 - (i) whether amounts are to be regarded as payable (and for this purpose damages or other amounts will be regarded as payable if they would have been owed had a suit or action barred under paragraph (b)(ii) above been brought);
 - (ii) the calculation of amounts owing; or
 - (iii) whether a breach or default has occurred,but any resulting liability will be subject to the limitations in this clause.
- (e) Subject to paragraph (c) above, a party to a Relevant Document has no rights against or recourse to any officer, employee, delegate, or agent of the Security Trustee (Aus) in connection with the Security Trustee (Aus)'s obligations under the Relevant Documents.
- (f) The Security Trustee (Aus) is not obliged to do or not do anything in connection with a Relevant Document (including enter into any transaction or incur any liability) unless:
 - (i) the Security Trustee (Aus)'s liability is limited in a manner which is consistent with this clause 2.1; or
 - (ii) the Security Trustee (Aus) is indemnified (or otherwise put in funds) to its satisfaction against any liability or loss arising from, and any costs, charges and expenses (including those incurred in connection with advisers) properly incurred in connection with, doing or not doing that thing.

2.2 Capacity of Senior Agent (Aus)

Other than as expressly stated in this Scheme, any action taken (including the giving of any release) by the Senior Agent (Aus) or on its behalf is done in its capacity as agent under the relevant Finance Document or the New Australian Financing Documents (as applicable) and not in its personal, or any other, capacity.

2.3 Capacity of the Security Trustee (UK)

- (a) The Security Trustee (UK) enters into and performs each Relevant Document to which it is a party and the transactions they contemplate only as the trustee of the security trust constituted under the New UK Security Documents (in this clause, **Security Trust (UK)**), except where expressly stated otherwise. This applies also in respect of any past and future conduct (including omissions) relating to each Relevant Document or those transactions.
- (b) Under and in connection with each Relevant Document and those transactions and conduct:
 - (i) the Security Trustee (UK)'s liability (including for negligence) to parties is limited to the extent it can be satisfied out of the assets of the Security Trust (UK). The Security Trustee (UK) need not pay any such liability out of other assets;

- (ii) another party may only do the following with respect to the Security Trustee (UK) (but any resulting liability remains subject to the limitations in this clause):
 - (A) prove and participate in, and otherwise benefit from, any form of insolvency administration of the Security Trustee (UK) but only with respect to Security Trust (UK) assets;
 - (B) exercise rights and remedies with respect to Security Trust (UK) assets, including set-off;
 - (C) enforce its security (if any) and exercise contractual rights; and
 - (D) bring any proceedings against the Security Trustee (UK) seeking relief or orders that are not inconsistent with the limitations in this clause,
 and may not:
 - (E) bring other proceedings against the Security Trustee (UK);
 - (F) take any steps to have the Security Trustee (UK) placed in any form of insolvency administration or to have a receiver or receiver and manager appointed; or
 - (G) seek by any means (including set-off) to have a liability of the Security Trustee (UK) to that party (including for negligence) satisfied out of any assets of the Security Trustee (UK) other than Security Trust (UK) assets.
- (c) Paragraphs (a) and (b) above apply despite any other provision in a Relevant Document but do not apply with respect to any liability of the Security Trustee (UK) to another party (including for negligence) to the extent that the Security Trustee (UK) has no right or power to have Security Trust (UK) assets applied towards satisfaction of that liability, or its right or power to do so is subject to a deduction, reduction, limit or requirement to make good, in either case because the relevant liability was incurred as a direct result of the Security Trustee (UK)'s fraud, gross negligence or wilful default.
- (d) The limitation in paragraph (b)(i) above is to be disregarded for the purposes (but only for the purposes) of the rights and remedies described in paragraph (b)(ii) above, and interpreting a Relevant Document and any security for it, including determining the following:
 - (i) whether amounts are to be regarded as payable (and for this purpose damages or other amounts will be regarded as payable if they would have been owed had a suit or action barred under paragraph (b)(ii) above been brought);
 - (ii) the calculation of amounts owing; or
 - (iii) whether a breach or default has occurred,
 but any resulting liability will be subject to the limitations in this clause.
- (e) Subject to paragraph (c) above, a party to a Relevant Document has no rights against or recourse to any officer, employee, delegate, or agent of the Security Trustee (UK) in connection with the Security Trustee (UK)'s obligations under the Relevant Documents.
- (f) The Security Trustee (UK) is not obliged to do or not do anything in connection with a Relevant Document (including enter into any transaction or incur any liability) unless:
 - (i) the Security Trustee (UK)'s liability is limited in a manner which is consistent with this clause 2.3; or

- (ii) the Security Trustee (UK) is indemnified (or otherwise put in funds) to its satisfaction against any liability or loss arising from, and any costs, charges and expenses (including those incurred in connection with advisers) properly incurred in connection with, doing or not doing that thing.

2.4 Capacity of Senior Agent (UK)

Other than as expressly stated in this Scheme, any action taken (including the giving of any release) by the Senior Agent (UK) or on its behalf is done in its capacity as agent under the New UK Financing Documents (as applicable) and not in its personal, or any other, capacity.

2.5 Capacity of Note Trustee (UK)

- (a) Other than as expressly stated in this Scheme, any action taken (including the giving of any release) by the Note Trustee (UK) or on its behalf is done in its capacity as note trustee, registrar and/or agent (as applicable) under the New UK Financing Documents (as applicable) and not in its personal, or any other, capacity and any action taken by the Note Trustee (UK) or on its behalf under this Scheme or any Relevant Document to which it is a party is done in such capacity.
- (b) The Note Trustee (UK) will have no liability under or in connection with this Scheme and each Relevant Document to which it is a party (whether to the Scheme Senior Lenders, the Obligors or any other person) other than to the extent to which the Note Trustee (UK) is actually indemnified for the liability. Subject to paragraph (e) below, this limitation of the Note Trustee (UK)'s liability applies despite any other provision of this Scheme and each Relevant Document to which it is a party and extends to all liabilities and obligations of the Note Trustee (UK) in relation to any representation, warranty, conduct, omission, agreement or transaction related to this Scheme and each Relevant Document to which it is a party.
- (c) Subject to paragraph (d) and (e) below, no party may sue the Note Trustee (UK) personally, seek the appointment of a liquidator, administrator, receiver or similar person to the Note Trustee (UK) or prove in any liquidation, administration or arrangement of or affecting the Note Trustee (UK).
- (d) Nothing in this clause 2.5 limits or adversely affects the rights, powers, discretions or remedies of the Note Trustee (UK).
- (e) This clause 2.5 will not apply to a liability of the Note Trustee (UK) to the extent that it is not satisfied because, under this Scheme, a Relevant Document to which it is a party or by operation of law, there is a reduction in the extent of the Note Trustee (UK)'s indemnification as a result of the Note Trustee (UK)'s fraud, gross negligence or wilful misconduct.
- (f) The Note Trustee (UK) does not have any obligations to any party under or in connection with this Scheme and each Relevant Document to which it is a party, except as expressly provided in this Scheme and each Relevant Document to which it is a party.

2.6 Deeds Poll

- (a) This Scheme attributes actions to persons other than the Company and the Scheme Senior Lenders, being the Security Trustees, the Senior Agents, the Note Trustee (UK), each Obligor (other than the Company), UK HoldCo, the Released Obligor Individuals and the Scheme Administrators.
- (b) Each of the Scheme Senior Lenders, the Security Trustees, the Senior Agents, the Note Trustee (UK), each Obligor, UK HoldCo, the Scheme Administrators and the Released Obligor Individuals has agreed or will agree, by executing the

relevant Deed Poll (including by power of attorney pursuant to clause 5.2), to perform the actions attributed to it under this Scheme, and is taken to be a party to this Scheme on and subject to the provisions of the relevant Deed Poll, and in the case of the Security Trustee Deeds Poll, the Note Trustee (UK) Deed Poll and the Senior Agent Deeds Poll, on execution of those Deeds Poll following instructions received by them in accordance with Step 1 (Deeds Poll and Scheme Senior Lender information) and otherwise in accordance with the terms of, and limitations to, the undertakings they have signed.

- (c) This Scheme also contemplates:
 - (i) the Scheme Senior Lenders entering into a deed poll as set out in clause 5.2; and
 - (ii) that any other person who is entitled to become a Released Obligor Individual may enter into a Released Obligor Individual Deed Poll either on, before or after the Effective Date.

3 Conditions Precedent

3.1 Conditions precedent

This Scheme is conditional upon, and will have no force or effect until, the satisfaction of each of the following conditions precedent:

- (a) **(Restructuring Support Deed conditions)** all the conditions in clause 3.1 of the Restructuring Support Deed (other than the condition in clause 3.1(g) of that deed) are satisfied or waived in accordance with the terms of the Restructuring Support Deed and in any event at or before 8.00 am on the Second Court Date;
- (b) **(Instructions - Security Trustees)** as at 8.00 am on the Second Court Date, each Security Trustee has received all instructions, consents and directions that it requires from:
 - (i) any Beneficiary (as defined in the Security Trust Deed); or
 - (ii) any beneficiary (or person in an equivalent position who by the operation of this Scheme becomes a beneficiary) under the New UK Security Documents,

that is not a Senior Lender or a Senior Agent to enable it to perform its obligations under, and to give effect to, this Scheme in accordance with the Steps, including to execute and deliver the Deed Poll applicable to it and to perform its obligations under that Deed Poll;
- (c) **(Instructions - Company and S&G UK)** as at 8.00 am on the Second Court Date, the Company and S&G UK have received all consents, releases and approvals that they require from any Beneficiary (as defined in the Security Trust Deed) that is not a Senior Lender, a Security Trustee or a Senior Agent and which is required in connection with:
 - (i) the release of the Company and each Australian Obligor from its obligations under the UK Ancillary Finance Documents; or
 - (ii) the release of S&G UK and each UK Obligor from its obligations under the Australian Transactional Facilities Documents and any Hedging Agreements entered into by an Australian Obligor,

in each case, with effect from the Effective Date or the Implementation Date (as applicable).

- (d) **(IP Deed)** as at 8.00 am on the Second Court Date, the IP Deed has been executed and remains in full force and effect;
- (e) **(Regulatory approvals)** as at 8.00 am on the Second Court Date, any approvals or consents, which are not otherwise described in clause 3.1(b) or clause 3.1(c) of the Restructuring Support Deed but which are required by law or by any Governmental Agency to have been obtained in order to implement this Scheme, have been provided either:
 - (i) on an unconditional basis, or
 - (ii) if any approval or consent under this clause 3.1(e) has been provided on a conditional basis, each condition to the approval or consent has either been:
 - (A) satisfied in full or waived in writing by the relevant Governmental Agency (as applicable); or
 - (B) accepted by each person that is a beneficiary of that approval or consent; and

remain in full force and effect and have not been withdrawn, suspended or revoked;
- (f) **(New Financing Documents)** as at 8.00 am on the Second Court Date:
 - (i) each of:
 - (A) such number of Senior Lenders whose Claims as a Senior Lender represent at least 75% of the value of all Claims held by the Senior Lenders against the Company in their capacity as Senior Lenders;
 - (B) the Company (on behalf of itself and each other Obligor); and
 - (C) the Security Trustees, the Senior Agents and/or the Note Trustee (UK),

has confirmed to the Company (which in the case of the relevant Senior Lenders will be provided by the Senior Agent (Aus) acting on the instructions of those Senior Lenders) and the Senior Agent (Aus) that each New Financing Document to which it will be a party is in final form;
 - (ii) each New Money Scheme Senior Lender has:
 - (A) confirmed to the Company (which in the case of the relevant Senior Lenders will be provided by the Senior Agent (Aus) acting on the instructions of those Senior Lenders), the Senior Agent (Aus) and the Scheme Administrators (which in the case of the relevant Senior Lenders will be provided by the Senior Agent (Aus) acting on the instructions of those Senior Lenders) that it will make available to the Senior Agent (Aus) its respective New Super Senior Facilities Relevant Proportion of the New Super Senior Facilities in immediately available funds by no later than the second Business Day prior to the Implementation Date; and
 - (B) authorised the Scheme Administrators to execute and deliver the Super Senior Amendment Deed (New Facilities) and the New GBP Super Senior Facility Agreement in accordance with this Scheme; and
 - (iii) the Company (acting reasonably) has formed the view that each condition precedent to financial close under the New Financing Documents will be satisfied or waived on or before the Implementation Date (other than

those conditions precedent that relate to this Scheme becoming Effective);

- (g) **(no termination)** as at 8.00 am on the Second Court Date, the Restructuring Support Deed has not been terminated in accordance with its terms;
- (h) **(Court approval)** the Court:
 - (i) makes the Second Court Orders, including with such conditions or alterations made or required by the Court under section 411(6) of the Corporations Act (which conditions or alterations (if any) do not change the substance of this Scheme, including the Steps, in any material respect);
 - (ii) approves the Shareholder Claimants Scheme including with such conditions or alterations made or required by the Court under section 411(6) of the Corporations Act (which conditions or alterations (if any) do not change the substance of the Shareholder Claimants Scheme in any material respect); and
 - (iii) approves the Hall Proceeding Settlement;
- (i) **(other conditions)** any other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to this Scheme (which conditions do not change the substance of this Scheme, including the Steps, in any material respect) have been satisfied; and
- (j) **(Effective)** this Scheme becomes Effective.

3.2 Certificate

- (a) On the Second Court Date, the Company will provide a certificate to the Court (or such other evidence as the Court may request) confirming, in respect of matters within its knowledge, whether or not the conditions precedent set out in clauses 3.1(a) to 3.1(g) (inclusive) have been satisfied in accordance with the terms of each condition precedent.
- (b) The certificate (or other evidence) given by the Company constitutes conclusive evidence, as between the parties, that the conditions precedent set out in clauses 3.1(a) to 3.1(g) (inclusive) have (or have not) been satisfied, as the case may be.

4 Implementation Steps

4.1 Definitions, interpretation and undertaking not to make Claims

- (a) In this clause 4:
 - (i) subject to clause 4.1(b):
 - (A) all releases and discharges are irrevocable at and from the time they are expressed to take effect; and
 - (B) each action to be taken, done or completed under clause 4.5 will be taken to have occurred at the time it is expressed to have occurred under the terms of this Scheme;
 - (ii) a reference to an amount owing is a reference to that amount whether actually or contingently owing; and
 - (iii) notwithstanding anything to the contrary in clause 4.5, anything (including an issue, allotment, transfer, assignment, release or discharge) occurring under a Step is binding and effective even if there is no consideration for it.

- (b) Where, as a result of a release, discharge, allotment, issue, transfer, assignment or other event failing to occur or to take effect, it is not possible to give effect to the intent and purpose of this Scheme in all material respects:
 - (i) no other release, discharge, allotment, issue, transfer, assignment or other event referred to or contemplated by the Steps has effect (including as a result of non-satisfaction of a condition to that release or obligation, if any), and each such release, discharge, allotment, issue, transfer, assignment or other event is deemed not to have effect; and
 - (ii) the Obligors, the Security Trustees, the Senior Agents, the Note Trustee (UK), the Scheme Administrators, UK HoldCo, the Released Obligor Individuals and the Scheme Senior Lenders shall do all things reasonably necessary to put each other party in the position it would have been in if none of the Steps had occurred.

4.2 Sunset Date

If all Steps in clause 4.5 have not been completed on or before 11.59 pm on the Sunset Date, then with effect from that time, this Scheme will not be capable of implementation and this Scheme will lapse, terminate and be of no further force or effect (other than clause 4.1(b)(ii)).

4.3 Scheme Administrators' register and certification

- (a) The Scheme Administrators must keep a register noting the time of completion of the Steps in the form of Attachment A, and sign it where indicated on completion of each Step. Each of the register and a copy of the register certified by the Scheme Administrators will be conclusive evidence that the Step was completed at the time noted in the register.
- (b) As soon as practicable after completion of the Steps, the Scheme Administrators will give a copy of the register, certified by the Scheme Administrators, to each of the Company, the Security Trustees and the Senior Agents.

4.4 Timing of Steps

- (a) As early as practicable on the Effective Date:
 - (i) the Company must notify the Scheme Administrators of the fact that the Scheme has become Effective; and
 - (ii) the Scheme Administrators shall notify each Security Trustee, each Senior Agent and the Note Trustee (UK) of the Effective Date and shall notify the aforementioned parties and the Company of the day (which must be a Business Day) which it anticipates that Steps 3 (Appointment of New Directors) to 26 (Voluntary Escrow Deeds) inclusive will likely be able to be completed (which is anticipated to be the Implementation Date).
- (b) As soon as the Company has received the notification referred to in clause 4.4(a)(ii), it will make a public announcement setting out that the Scheme has become Effective and the anticipated Implementation Date.
- (c) Steps 3 (Appointment of New Directors) to 26 (Voluntary Escrow Deeds) (inclusive) are to occur on the Implementation Date as set out in clause 4.5 in accordance with their terms so long as the Steps referred to in clause 4.4(d) have been completed, and the payments referred to in clause 4.5(b)(iii) have been effected by no later than the day immediately prior to the Implementation Date.
- (d) Steps 1 (Deeds Poll and Scheme Senior Lender Information) to 2 (Calculations) (inclusive) are to occur on the dates as set out in clause 4.5 in accordance with their terms.

- (e) If there is a change to the date notified by the Scheme Administrators pursuant to clause 4.4(a) as being the Implementation Date:
 - (i) the Scheme Administrators must, as soon as practicable after the change, notify the Company, each Security Trustee, each Senior Agent and the Note Trustee (UK) of the details of that change (including the reasons for it);
 - (ii) the Company must make a further public announcement setting out the change to the anticipated Implementation Date; and
 - (iii) any steps taken to comply with Step 2 (Calculations) must be repeated, but taking into account the change to the anticipated Implementation Date.

4.5 Steps

(a) **Step 1 (Deeds Poll and Scheme Senior Lender information):**

On the Effective Date and prior to any other Step commencing:

- (i) **(Scheme Senior Lender Deed Poll)** first, the Scheme Administrators must execute the Scheme Senior Lender Deed Poll pursuant to the appointment in clause 5.2;
- (ii) **(Senior Agent Deeds Poll, Security Trustee Deeds Poll and Note Trustee (UK) Deed Poll)** second, each Obligor and the Scheme Administrators, on behalf of each Scheme Senior Lender pursuant to the appointment in clause 5.1(b), gives each Security Trustee, each Senior Agent and the Note Trustee (UK) all instructions, consents and directions that (together with the instructions received as a condition precedent to the Scheme under clause 3.1(b)) each of them requires from that Scheme Senior Lender and Obligor to perform each of their obligations under this Scheme, including to execute and deliver to the Scheme Administrators the Deed Poll applicable to each of them and to perform each of their obligations under that Deed Poll,
- (iii) **(Delivery of Senior Agent Deeds Poll, Security Trustee Deeds Poll and Note Trustee (UK) Deed Poll)** third, in accordance with the instructions set out in clauses 4.5(a)(ii) and 8 of this Scheme, each Security Trustee, each Senior Agent and the Note Trustee (UK) will execute and deliver to the Scheme Administrators the Deed Poll that is to be made by it; and
- (iv) **(Senior Agent (Aus) records)** fourth, the Senior Agent (Aus) shall provide to the Scheme Administrators and the Company a table which shows, according to the Senior Agent (Aus)'s records as at 9.00 am on the Effective Date:
 - (A) the full name, postal address, email address and contact phone number of each Scheme Senior Lender;
 - (B) the Aggregate Senior Amount in respect of each Scheme Senior Lender; and
 - (C) the Total Aggregate Senior Amount.

(b) **Step 2 (Calculations):**

On the Calculation Date, the Scheme Administrators shall:

- (i) based on the information referred to in clause 4.5(a)(iv), and for the purposes of the calculations set out in:
 - (A) Step 10 (Tranche 1 - New UK HoldCo Share issue);

- (B) Step 15 (Tranche 2 - New UK HoldCo Share issue);
 - (C) Step 18 (Tranche 1 - New 10% Share issue);
 - (D) Step 20 (Tranche 2 - New 20% Share issue);
 - (E) Step 24 (Tranche 3 - New Remaining Share issue); and
 - (F) Step 25 (Tranche 3 - New UK HoldCo Share issue),
- calculate:
- (G) each Scheme Senior Lender's Relevant Proportion;
 - (H) the Incremental Facilities Relevant Proportion for each Participating Incremental Facilities Lender;
 - (I) the New Super Senior Facilities Relevant Proportion for each Participating New Super Senior Facilities Senior Lender;
 - (J) the aggregate number of New Shares and the aggregate number of New UK HoldCo Shares; and
 - (K) in respect of each Scheme Senior Lender (including, if applicable, in its capacity as a Participating Incremental Facilities Lender and/or a Participating New Super Senior Facilities Senior Lender), the number of the New Shares and New UK HoldCo Shares to be issued to that Scheme Senior Lender in accordance with each relevant Step of this Scheme;
- (ii) provide the details of the calculations referred to in clause 4.5(b)(i) to the Company, each Security Trustee, each Senior Agent, the Note Trustee (UK), UK HoldCo and S&G UK and, subject to clause 4.4(e)(iii) and in the absence of manifest error, all of the calculations in clause 4.5(b)(i) shall be final and binding on the parties; and
 - (iii) request each New Money Scheme Senior Lender to effect all payments required in order to meet its New Super Senior Facilities Relevant Proportion of the New Super Senior Facilities in immediately available funds by no later than the second Business Day prior to the Implementation Date.
- (c) **Step 3 (Appointment of New Directors):**
- (i) As early as practicable on the Implementation Date, the Company must take all actions necessary to cause the appointment of each New Director to the Company Board, in each case subject only to receiving a signed consent to act from that New Director; and
 - (ii) UK HoldCo must take all actions necessary to cause:
 - (A) it to adopt the UK HoldCo Articles; and
 - (B) the appointment of each UK HoldCo Director to the UK HoldCo Board, in each case subject only to receiving a signed consent to act from that UK HoldCo Director and any approvals or consents required by law or any Governmental Agency to have been obtained.
- (d) **Step 4 (Full release of debt owed by S&G UK):**
- (i) Immediately after the completion of Step 3 (Appointment of New Directors), each of the Scheme Senior Lenders, the Senior Agent (Aus) and the Security Trustee (Aus):

- (A) releases each Obligor from its obligation to pay, and/or its guarantee to pay, to any of the parties to the Finance Documents all amounts drawn by S&G UK under the Senior Facilities;
 - (B) subject to clause 4.5(d)(ii), waives all rights against each Obligor solely to the extent such rights arise under any Finance Document and relate to amounts drawn by S&G UK under the Senior Facilities; and
 - (C) consents to the releases and waivers in clauses 4.5(d)(i)(A) and 4.5(d)(i)(B) and waives all rights that it may have to require that any person or party comply with any waiver or amendment mechanics under the Finance Documents or any other provisions under the Finance Documents to the extent necessary to give effect to clauses 4.5(d)(i)(A) and 4.5(d)(i)(B), and each such person or party is deemed to have delivered a Resignation Letter (as defined in the Syndicated Facility Agreement) such that, on and from the date of that deemed delivery, such person or party shall be released from its obligations as an Obligor.
- (ii) The waiver in clause 4.5(d)(i)(B) will not apply to any UK Obligor in respect of any UK Ancillary Finance Documents.
- (e) **Step 5 (Entry into Convertible Note Deed):**
 Simultaneously with Step 4 (Full release of debt owed by S&G UK):
 - (i) in consideration for the Scheme Senior Lenders entering into the Scheme, S&G UK will issue 25% of the total number of Convertible Notes that will be on issue immediately following implementation of this Scheme to the Scheme Senior Lenders (or their nominees, each of whose name and address is notified to S&G UK by any Scheme Senior Lender by no later than the Calculation Date), each in their Relevant Proportion;
 - (ii) in consideration for the Participating New Super Senior Facilities Senior Lenders entering into the New UK Financing Documents and agreeing to make available the New GBP Super Senior Facility in accordance with Step 22 (New Financing Documents), S&G UK will issue 75% of the total number of Convertible Notes that will be on issue immediately following implementation of this Scheme to Participating New Super Senior Facilities Senior Lenders (or their nominees, each of whose name and address is notified to S&G UK by any Participating New Super Senior Facilities Lender by no later than the Calculation Date), each in their New Super Senior Facilities Relevant Proportion;
 - (iii) where a Scheme Senior Lender (or its nominee) would receive a fractional number of Convertible Notes as a result of the operation of clause 4.5(e)(i) and/or clause 4.5(e)(ii) (as applicable), then the aggregate number of Convertible Notes issued to that person under this Step 5 (Entry into Convertible Note Deed) will be rounded up to the nearest whole number;
 - (iv) each party to the Convertible Note Deed (acting through the Scheme Administrators as applicable) executes and enters into the Convertible Note Deed, at which point the Convertible Note Deed shall operate in accordance with its own terms; and
 - (v) each Scheme Senior Lender (or its nominee) to whom Convertible Notes are issued under this Step 5 (Entry into Convertible Note Deed) is taken to have applied for such Convertible Notes.

(f) **Step 6 (New UK Security Documents):**

Simultaneously with Step 5 (Entry into Convertible Note Deed), each UK Obligor, the Note Trustee (UK) and the Security Trustee (UK) shall enter into the New UK Security Documents, including the New UK Security Trust and Intercreditor Agreements, pursuant to which the Transaction Security granted by the UK Obligors is amended and assigned to the Security Trustee (UK), and pursuant to which the UK Obligors grant new security in favour of the Security Trustee (UK) in respect of, inter alia, their liabilities under, and in connection with, the Convertible Notes.

(g) **Step 7 (Release of UK Obligors):**

Immediately following Step 6 (New UK Security Documents):

- (i) each of the Scheme Senior Lenders, the Senior Agent (Aus) and the Security Trustee (Aus):
 - (A) releases each UK Obligor from all Claims and obligations (including representations and warranties); and
 - (B) waives all rights against each UK Obligor,in each case, solely to the extent such Claims, obligations and rights arise under any Finance Document (including, for the avoidance of doubt, each Hedging Agreement and Australian Transactional Facilities Document);
- (ii) the Senior Agent (Aus) and the Security Trustee (Aus) (on behalf of itself and each beneficiary under the Security Trust Deed) shall release each UK Obligor from its obligations under the Security Trust Deed and each other Finance Document (including, for the avoidance of doubt, each Hedging Agreement and Australian Transactional Facilities Document);
- (iii) each of the Scheme Senior Lenders, the Senior Agent (Aus) and the Security Trustee (Aus) consents to the releases and waivers in this clause 4.5(g) and waives all rights that it may have to require that any person or party comply with any waiver or amendment mechanics under the Finance Documents or any other provisions under the Finance Documents to the extent necessary to give effect to this clause 4.5(g), and each such person or party is deemed to have delivered a Resignation Letter (as defined in the Syndicated Facility Agreement) such that, on and from the date of that deemed delivery, such person or party shall be released from its obligations as an Obligor; and
- (iv) the releases and waivers in this clause 4.5(g) will not apply to any UK Obligor in respect of any UK Ancillary Finance Documents.

(h) **Step 8 (Release of Australian Obligors):**

Immediately following Step 6 (New UK Security Documents) and simultaneously with Step 7 (Release of UK Obligors):

- (i) each of the Scheme Senior Lenders, the Senior Agent (Aus) and the Security Trustee (Aus):
 - (A) releases each Australian Obligor from all Claims and obligations (including representations and warranties); and
 - (B) waives all rights against each Australian Obligor,in each case, solely to the extent such Claims, obligations and rights arise under any UK Ancillary Finance Document; and
- (ii) the Senior Agent (Aus) and the Security Trustee (Aus) (on behalf of itself and each beneficiary under the Security Trust Deed) shall release each Australian Obligor from its obligations under the Security Trust Deed

solely as it relates to the UK Ancillary Finance Documents, such that the UK Ancillary Finance Documents will not be considered “finance documents” for the purposes of the Security Trust Deed; and

- (iii) each of the Senior Agent (Aus) and the Security Trustee (Aus) consents to the releases and waivers in this clause 4.5(h) and waives all rights that it may have to require that any person or party comply with any waiver or amendment mechanics under the Finance Documents or any other provisions under the Finance Documents to the extent necessary to give effect to this clause 4.5(h), and each such person or party is deemed to have delivered a Resignation Letter (as defined in the Syndicated Facility Agreement) such that, on and from the date of that deemed delivery, such person or party shall be released from its obligations as an Obligor.

(i) **Step 9 (Issue of Promissory Note to UK HoldCo):**

Immediately after the completion of Step 7 (Release of UK Obligors) and Step 8 (Release of Australian Obligors):

- (i) each person contemplated to be a party to the Promissory Note executes and enters into the Promissory Note, at which point the Promissory Note shall operate in accordance with its own terms; and
- (ii) the Scheme Senior Lenders issue and deliver to UK HoldCo the Promissory Note in their Relevant Proportions.

(j) **Step 10 (Tranche 1 - New UK HoldCo Share issue):**

Simultaneously with Step 9 (Issue of Promissory Note to UK HoldCo):

- (i) in consideration for the issue of the Promissory Note in Step 9 (Issue of Promissory Note to UK HoldCo), UK HoldCo allots and issues such number of New UK HoldCo Shares equal to 20% of the total number of UK HoldCo Shares that will be on issue immediately following implementation of this Scheme to the Scheme Senior Lenders (or their nominees, each of whose name and address is notified to UK HoldCo by any Scheme Senior Lender by no later than the Calculation Date), each in their Relevant Proportion;
- (ii) UK HoldCo shall procure that the name and address of each Scheme Senior Lender (or its nominee whose name and address is notified to UK HoldCo in accordance with clause 4.5(j)(i)) is entered into UK HoldCo's register of members together with the number of New UK HoldCo Shares issued to each Scheme Senior Lender (or its nominee, as the case may be) pursuant to this clause 4.5(j);
- (iii) where a Scheme Senior Lender (or its nominee) would receive a fractional number of New UK HoldCo Shares as a result of the operation of this clause 4.5(j), then the number of New UK HoldCo Shares issued to that person under this Step 10 (Tranche 1 - New UK HoldCo Share issue) will be rounded up to the nearest whole number;
- (iv) all New UK HoldCo Shares issued under this Step 10 (Tranche 1 - New UK HoldCo Share issue) shall rank *pari passu* amongst themselves subject to the terms set out in the UK HoldCo Articles and are free from all Security Interests and other encumbrances; and
- (v) each Scheme Senior Lender (or its nominee) to whom New UK HoldCo Shares are issued under this Step 10 (Tranche 1 - New UK HoldCo Share issue) is taken to have applied for such New UK HoldCo Shares and to have agreed to be bound by the UK HoldCo Articles.

(k) **Step 11 (Business Separation Agreement):**

Immediately after completion of Step 10 (Tranche 1 - New UK HoldCo Share issue), each party to the Business Separation Agreement shall release from escrow and exchange their signed counterparts to that agreement, at which point the Business Separation Agreement shall operate in accordance with its own terms.

(l) **Step 12 (Transfer of Walker Smith Way shares):**

Immediately after completion of Step 11 (Business Separation Agreement) and simultaneously with completion of Step 13 (Transfer of S&G UK shares):

- (i) in consideration for the payment of \$1 to the Company (the receipt of which is hereby acknowledged), the Company will transfer all shares it holds in Walker Smith Way to UK HoldCo pursuant to the terms of the S&G UK Share Sale Agreement;
- (ii) the Company and UK HoldCo each execute the WSW Share Transfer Form and the Company delivers that fully executed form to UK HoldCo;
- (iii) Walker Smith Way shall procure that its register of members is updated to reflect the transfer of its shares contemplated by this clause 4.5(l); and
- (iv) UK HoldCo is taken to have agreed to acquire the shares in Walker Smith Way from the Company and to have agreed to be bound by Walker Smith Way's constitution.

(m) **Step 13 (Transfer of S&G UK shares):**

Immediately after completion of Step 11 (Business Separation Agreement) and simultaneously with completion of Step 12 (Transfer of Walker Smith Way shares):

- (i) in consideration for:
 - (A) UK HoldCo endorsing the Promissory Note in favour of the Company under Step 14 (Endorsement of Promissory Note - UK HoldCo);
 - (B) the Deferred Consideration; and
 - (C) the assumption by UK HoldCo of the balance of all intercompany loans payable by the Company to S&G UK (outstanding as at immediately prior to the commencement of this Step 13 (Transfer of S&G UK shares)) in accordance with the terms of the S&G UK Share Sale Agreement,the Company will transfer all shares it holds in S&G UK to UK HoldCo pursuant to the terms of the S&G UK Share Sale Agreement;
- (ii) S&G UK will provide a limited guarantee of UK HoldCo's obligation to pay the Deferred Consideration (limited to the Watchstone Proceeds up to the Watchstone Entitlement Amount) and such obligation will be secured by the Watchstone Entitlement Security on the terms of the New UK Security Trust and Intercreditor Agreements;
- (iii) each of the Company, UK HoldCo and S&G UK (as applicable) executes and enters into the S&G UK Share Sale Agreement and the S&G UK Share Transfer Form to which it is a party and delivers that fully executed form to UK HoldCo, at which point those documents shall operate in accordance with their own terms;
- (iv) S&G UK shall procure that its register of members is updated to reflect the transfer of its shares contemplated by this clause 4.5(m); and

- (v) UK HoldCo is taken to have agreed to acquire the shares in S&G UK from the Company and to have agreed to be bound by S&G UK's constitution.
- (n) **Step 14 (Endorsement of Promissory Note - UK HoldCo):**
Simultaneously with Step 12 (Transfer of Walker Smith Way shares) and Step 13 (Transfer of S&G UK shares), UK HoldCo will endorse the Promissory Note in favour of, and deliver it to, the Company.
- (o) **Step 15 (Tranche 2 - New UK HoldCo Share issue):**
Immediately following Step 14 (Endorsement of Promissory Note - UK HoldCo):
 - (i) in satisfaction of the Incremental Facility Commitment Fee payable in respect of the Super Senior GBP Incremental Facility, UK HoldCo allots and issues such number of New UK HoldCo Shares equal to 10% of the total number of UK HoldCo Shares that will be on issue immediately following implementation of this Scheme to the Participating Incremental Facilities Lenders (or their nominees, each of whose name and address is notified to UK HoldCo by the Participating Incremental Facilities Lender by no later than the Calculation Date), each in their Incremental Facilities Relevant Proportion;
 - (ii) UK HoldCo shall procure that the name and address of each Participating Incremental Facilities Lender (or its nominee whose name and address is notified to UK HoldCo in accordance with clause 4.5(o)(i)) is entered into UK HoldCo's register of members together with the number of New UK HoldCo Shares issued to that Participating Incremental Facilities Lender (or its nominee, as the case may be) pursuant to this clause 4.5(o);
 - (iii) where a Participating Incremental Facilities Lender (or its nominee) would receive a fractional number of New UK HoldCo Shares as a result of the operation of this clause 4.5(o), then the number of New UK HoldCo Shares issued to that person under this Step 15 (Tranche 2 - New UK HoldCo Share issue) will be rounded up to the nearest whole number;
 - (iv) all New UK HoldCo Shares issued under this Step 15 (Tranche 2 - New UK HoldCo Share issue) shall rank *pari passu* amongst themselves subject to the terms of the UK HoldCo Articles and are free from all Security Interests and other encumbrances; and
 - (v) each Participating Incremental Facilities Lender (or its nominee) to whom New UK HoldCo Shares are issued under this Step 15 (Tranche 2 - New UK HoldCo Share issues) is taken to have applied for such New UK HoldCo Shares and to have agreed to be bound by the UK HoldCo Articles.
- (p) **Step 16 (Restated SFA)**
Immediately following Step 15 (Tranche 2 - New UK HoldCo Share issue) each party to the Restated SFA executes and enters into the Restated SFA, pursuant to which the Scheme Senior Lenders will be deemed to have made available the SFA Facility pro-rata in their Relevant Proportions, at which point the Restated SFA shall operate in accordance with its own terms and the proceeds of the SFA Facility shall be applied in repayment of the remaining amounts owing by the Company under facilities C, D and E of the Syndicated Facility Agreement.

(q) **Step 17 (Endorsement of Promissory Note - Company):**

Immediately following Step 16 (Restated SFA):

- (i) the Company will endorse the Promissory Note in favour of the Scheme Senior Lenders, and deliver it to the Senior Agent (Aus); and
- (ii) the Senior Agent (Aus) will apply the value of the Promissory Note in repayment of outstanding amounts owed by the Company (as borrower) under the Restated SFA and will record that each Scheme Senior Lender's New Aggregate Senior Amount is reduced by that Scheme Senior Lender's Relevant Proportion of the face value of the Promissory Note.

(r) **Step 18 (Tranche 1 - New 10% Share issue):**

Immediately following Step 17 (Endorsement of Promissory Note - Company):

- (i) in satisfaction of the Incremental Facility Commitment Fee payable in respect of the Super Senior AUD Incremental Facility, the Company allots and issues such number of New Shares equal to 10% of the total number of Shares that will be on issue immediately following implementation of the Scheme to the Participating Incremental Facilities Lenders (or their nominees, each of whose name and address is notified to the Company by the Participating Incremental Facilities Lender by no later than the Calculation Date), each in their Incremental Facilities Relevant Proportions;
- (ii) the Company shall procure that the name and address of each Participating Incremental Facilities Lender (or its nominee whose name and address is notified to the Company in accordance with clause 4.5(r)(i)) is entered into the Company's register of members together with the number of New Shares issued to each Participating Incremental Facilities Lender (or its nominee, as the case may be) pursuant to this clause 4.5(r);
- (iii) where a Participating Incremental Facilities Lender (or its nominee) would receive a fractional number of New Shares as a result of the operation of this clause 4.5(r), then the number of New Shares issued to that person under this Step 18 (Tranche 1 - New 10% Share issue) will be rounded up to the nearest whole number;
- (iv) all New Shares issued under this Step 18 (Tranche 1 - New 10% Share issue) shall rank pari passu amongst themselves and all other Shares already on issue and are free from all Security Interests and other encumbrances; and
- (v) each Participating Incremental Facilities Lender (or its nominee) to whom New Shares are issued under this Step 18 (Tranche 1 - New 10% Share issue) is taken to have applied for such New Shares and to have agreed to be bound by the Constitution.

(s) **Step 19 (Partial release of Company debt):**

Immediately after the completion of Step 18 (Tranche 1 - New 10% Share issue), simultaneously with Step 20 (Tranche 2 - New 20% Share issue):

- (i) in consideration for the issue of New Shares in Step 20 (Tranche 2 - New 20% Share issue), each Scheme Senior Lender:
 - (A) releases the Company and each other Australian Obligor from all Claims and obligations in respect of an amount owing under the SFA Facility equal to \$25.6 million; and

- (B) waives all rights against each Obligor solely to the extent such rights arise under any Finance Document and relate to the amount released under clause 4.5(s)(i)(A) (other than any Hedging Agreement or Transactional Facilities Document that will remain in place following implementation of this Scheme in respect of amounts drawn by the Company or any other Australian Obligor);
 - (ii) the Senior Agent (Aus) will record that each Scheme Senior Lender's New Aggregate Senior Amount is reduced by that Scheme Senior Lender's Relevant Proportion of the amount released in clause 4.5(s)(i)(A); and
 - (iii) each of the Scheme Senior Lenders, the Senior Agent (Aus) and the Security Trustee (Aus) consents to the releases and waivers in this clause 4.5(s) and waives all rights that it may have to require that any person or party comply with any waiver or amendment mechanics under the Finance Documents or any other provisions under the Finance Documents to the extent necessary to give effect to this clause 4.5(s), and each such person or party is deemed to have delivered a Resignation Letter (as defined in the Syndicated Facility Agreement) such that, on and from the date of that deemed delivery, such person or party shall be released from its obligations as an Obligor.
- (t) **Step 20 (Tranche 2 - New 20% Share issue):**
- Simultaneously with Step 19 (Partial release of Company debt) and in consideration for the partial release of the SFA Facility under that Step 19 (Partial release of Company debt):
- (i) the Company allots and issues such number of New Shares equal to 20% of the total number of Shares that will be on issue immediately following implementation of the Scheme to the Scheme Senior Lenders (or their nominee, whose name and address is notified to the Company by the Scheme Senior Lender by no later than the Calculation Date), each in their Relevant Proportions;
 - (ii) the Company shall procure that the name and address of each Scheme Senior Lender (or its nominee whose name and address is notified to the Company in accordance with clause 4.5(t)(i)) is entered into the Company's register of members together with the number of New Shares issued to each Scheme Senior Lender (or its nominee, as the case may be) pursuant to this clause 4.5(t);
 - (iii) where a Scheme Senior Lender (or its nominee) would receive a fractional number of New Shares as a result of the operation of this clause 4.5(t), then the number of New Shares issued to that person under this Step 20 (Tranche 2 - New 20% Share issue) will be rounded up to the nearest whole number;
 - (iv) all New Shares issued under this Step 20 (Tranche 2 - New 20% Share issue) shall rank pari passu amongst themselves and all other Shares already on issue and are free from all Security Interests and other encumbrances; and
 - (v) each Scheme Senior Lender (or its nominee) to whom New Shares are issued under this Step 20 (Tranche 2 - New 20% Share issue) is taken to have applied for such New Shares and to have agreed to be bound by the Constitution.

(u) **Step 21 (Release of residual AUD-denominated debt):**

Immediately after Step 20 (Tranche 2 - New 20% Share issue), to the extent that the aggregate amount owing under the SFA Facility is greater than \$60 million immediately following Step 19 (Partial release of Company debt) (with the excess over \$60 million being the **Residual Released Debt**), each of the Scheme Senior Lenders, the Senior Agent (Aus) and the Security Trustee (Aus):

- (i) releases the Company and each other Australian Obligor from all Claims and obligations in respect of the Residual Released Debt;
- (ii) waives all rights against each Australian Obligor solely to the extent such rights arise under the Restated SFA in respect of the Residual Released Debt;
- (iii) the Senior Agent (Aus) will record that each Scheme Senior Lender's New Aggregate Senior Amount is reduced by that Scheme Senior Lender's Relevant Proportion of the amount released in clause 4.5(u)(i); and
- (iv) each of the Scheme Senior Lenders, the Senior Agent (Aus) and the Security Trustee (Aus) consents to the releases and waivers in this clause 4.5(u) and waives all rights that it may have to require that any person or party comply with any waiver or amendment mechanics under the Finance Documents or any other provisions under the Finance Documents to the extent necessary to give effect to this clause 4.5(u), and each such person or party is deemed to have delivered a Resignation Letter (as defined in the Syndicated Facility Agreement) such that, on and from the date of that deemed delivery, such person or party shall be released from its obligations as an Obligor.

(v) **Step 22 (New Financing Documents):**

Immediately after Step 21 (Release of residual AUD-denominated debt):

- (i) each party to each New Financing Document (other than the Convertible Note Deed, which the parties executed under Step 5 (Entry into Convertible Note Deed), certain of the New UK Security Documents, which the parties executed under Step 6 (New UK Security Documents) and the Restated SFA, which the parties executed under Step 16 (Restated SFA), executes and enters into each such New Financing Document (other than the Convertible Note Deed, the executed New UK Security Documents and the Restated SFA), at which point each New Financing Document (other than the Convertible Note Deed, the executed New UK Security Documents and the Restated SFA) shall operate in accordance with its own terms;
- (ii) each Senior Agent (acting on the instructions of all Scheme Senior Lenders for which it acts as agent in respect of the relevant New Financing Documents) shall confirm that each condition precedent to financial close under the New Financing Documents has been satisfied or waived; and
- (iii) each New Money Scheme Senior Lender will be deemed to have instructed the Scheme Administrators to distribute any funds required to be provided by that New Money Scheme Senior Lender under the New Financing Documents (on a pro-rata basis) for the account of any Scheme Senior Lender who was an Original Super Senior Lender and whose pro-rata participation in the super senior facilities made available under the Super Senior Subscription Agreement has been reduced when compared to that Scheme Senior Lender's New Super Senior Facilities Relevant Proportion under the New Super Senior Facilities.

(w) **Step 23 (Releases):**

Immediately after the completion of Step 22 (New Financing Documents), and subject always to clause 4.6:

- (i) each of the Scheme Senior Lenders, the Security Trustee (Aus) and the Senior Agent (Aus):
 - (A) releases each Obligor from all Claims and obligations (including representations and warranties); and
 - (B) waives all rights against each Obligor,
in each case solely to the extent such Claims, obligations or rights arise under any Finance Document and relate to facts, matters or circumstances which existed or occurred in the period prior to the Implementation Date (other than in respect of each Transactional Facilities Document and any Hedging Agreement that will remain in place following implementation of this Scheme);
- (ii) each Obligor:
 - (A) releases each other Obligor, each Scheme Senior Lender, the Security Trustee (Aus) and the Senior Agent (Aus) from all Claims and obligations (including representations and warranties); and
 - (B) waives all rights against each other Obligor, each Scheme Senior Lender, the Security Trustee (Aus) and the Senior Agent (Aus),
in each case solely to the extent such Claims, obligations or rights arise under any Finance Document and relate to facts, matters or circumstances which existed or occurred in the period prior to the Implementation Date (other than in respect of each Transactional Facilities Document and any Hedging Agreement that will remain in place following implementation of this Scheme);
- (iii) each Scheme Senior Lender:
 - (A) releases the Security Trustee (Aus) and the Senior Agent (Aus) from all Claims and obligations (including representations and warranties); and
 - (B) waives all rights against the Security Trustee (Aus) and the Senior Agent (Aus),
in each case solely to the extent such Claims, obligations or rights arise under any Finance Document and relate to facts, matters or circumstances which existed or occurred in the period prior to the Implementation Date (other than in respect of each Transactional Facilities Document and any Hedging Agreement that will remain in place following implementation of this Scheme);
- (iv) each Scheme Senior Lender, each Security Trustee, each Senior Agent, the Note Trustee (UK) and each Obligor releases each Released Obligor Individual from all Claims and obligations relating to any fact, matter, circumstance, event, conduct, action and/or omission that arose or occurred in respect of, or in connection with, any Obligor or the Scheme at any time prior to, and including, the Implementation Date;
- (v) each Scheme Senior Lender, each Security Trustee, each Senior Agent, the Note Trustee (UK), each Obligor and each Released Obligor Individual:
 - (A) releases each director of each of the Company and S&G UK from all Claims and obligations; and

(B) waives all rights against each such director released in accordance with clause 4.5(w)(v)(A),

relating to any fact, matter, circumstance or event solely to the extent such Claims or obligations arise in connection with actions taken by each of the Company and S&G UK in accordance with this Scheme; and

- (vi) each Released Obligor Individual releases each Obligor from all Claims and obligations that Released Obligor Individual has or may have against any Obligor in their capacity as a current or former director or officer of that Obligor (provided that such release does not extend to Claims any Released Obligor Individual may have in relation to accrued but unpaid director fees and employee entitlements as a current or former officer of that Obligor),

except in each case, to the extent that the released party has engaged in fraud or bad faith in respect of the matters to which that Claim relates.

(x) **Step 24 (Tranche 3 - New Remaining Share issue):**

Immediately following Step 23 (Releases) and in consideration for the Participating New Super Senior Facilities Senior Lenders making available the New AUD Super Senior Facility:

- (i) the Company allots and issues such number of New Shares equal to 65% of the total number of Shares that will be on issue immediately following implementation of this Scheme to the Participating New Super Senior Facilities Senior Lenders (or their nominees, each of whose name and address is notified to the Company by a Participating New Super Senior Facilities Senior Lender by no later than the Calculation Date), each in their New Super Senior Facilities Relevant Proportions;
- (ii) the Company shall procure that the name and address of each Participating New Super Senior Facilities Lender (or its nominee whose name and address is notified to the Company in accordance with clause 4.5(x)(i)) is entered into the Company's register of members together with the number of New Shares issued to each Participating New Super Senior Facilities Senior Lender (or its nominee, as the case may be) pursuant to this clause 4.5(x);
- (iii) where a Participating New Super Senior Facilities Senior Lender (or its nominee) would receive a fractional number of New Shares as a result of the operation of this clause 4.5(x), then the number of New Shares issued to that person under this Step 24 (Tranche 3 - New Remaining Share issue) will be rounded up to the nearest whole number;
- (iv) all New Shares issued under this Step 24 (Tranche 3 - New Remaining Share issue) shall rank pari passu amongst themselves and all other Shares already on issue and are free from all Security Interests and other encumbrances; and
- (v) each Participating New Super Senior Facilities Senior Lender (or its nominee) to whom New Shares are issued under this Step 24 (Tranche 3 - New Remaining Share issue) is taken to have applied for such New Shares and to have agreed to be bound by the UK HoldCo Articles.

(y) **Step 25 (Tranche 3 - New UK HoldCo Share issue):**

Immediately following Step 24 (Tranche 3 - New Remaining Share issue) and in consideration for the Participating New Super Senior Facilities Senior Lenders making available the New GBP Super Senior Facility:

- (i) UK HoldCo allots and issues such number of New UK HoldCo Shares equal to 70% of the total number of UK HoldCo Shares that will be on

issue immediately following implementation of the Scheme to the Participating New Super Senior Facilities Senior Lenders (or their nominees, each of whose name and address is notified to UK HoldCo by any Participating New Super Senior Facilities Senior Lender by no later than the Calculation Date), each in their New Super Senior Facilities Relevant Proportions;

- (ii) UK HoldCo shall procure that the name and address of each Participating New Super Senior Facilities Senior Lender (or its nominee whose name and address is notified to UK HoldCo in accordance with clause 4.5(y)(i)) is entered into UK HoldCo's register of members together with the number of New UK HoldCo Shares issued to each Participating New Super Senior Facilities Senior Lender (or its nominee, as the case may be) pursuant to this clause 4.5(y);
- (iii) where a Participating New Super Senior Facilities Senior Lender (or its nominee) would receive a fractional number of New UK HoldCo Shares as a result of the operation of clause 4.5(y), then the number of New UK HoldCo Shares issued to that person under this Step 25 (Tranche 3 - New UK HoldCo Share issue) will be rounded up to the nearest whole number;
- (iv) all UK HoldCo Shares issued under this Step 25 (Tranche 3 - New UK HoldCo Share issue) shall rank pari passu amongst themselves subject to the terms of the UK HoldCo Articles and are free from all Security Interests and other encumbrances; and
- (v) each Participating New Super Senior Facilities Senior Lender (or its nominee) to whom New UK HoldCo Shares are issued under this Step 25 (Tranche 3 - New UK HoldCo Share issue) is taken to have applied for such New UK HoldCo Shares and to have agreed to be bound by the UK HoldCo Articles.

(z) Step 26 (Voluntary Escrow Deeds):

Immediately after Step 25 (Tranche 3 - New UK HoldCo Share issue) each Scheme Senior Lender and:

- (i) the Company, executes and enters into a Voluntary Escrow Deed in respect of that Scheme Senior Lender's New Shares, participation in the SFA Facility and participation in the New AUD Super Senior Facility (if any); and
- (ii) each of UK HoldCo and S&G UK executes and enters into a Voluntary Escrow Deed in respect of that Scheme Senior Lender's UK HoldCo Shares, Convertible Notes, and participation in the New GBP Super Senior Facility (if any),

at which point each Voluntary Escrow Deed shall operate in accordance with its own terms.

4.6 Acknowledgement

Notwithstanding anything to the contrary in clause 4.5, the releases, waivers and covenants given in clauses 4.5(d), 4.5(g), 4.5(h), 4.5(s), 4.5(u) and 4.5(w) shall not disentitle each Scheme Senior Lender, each Senior Agent, each Security Trustee, the Note Trustee (UK), each Obligor or each Released Obligor Individual from enforcing its rights under this Scheme or in respect of any transaction to be implemented in connection with this Scheme or in relation to a Specific Claim. Each party agrees that those releases, waivers and covenants will be limited to the extent necessary to permit each Scheme Senior Lender, each Senior Agent, each Security Trustee, the Note Trustee (UK), each Obligor or each Released Obligor Individual to enforce any such rights.

4.7 Bar to proceedings

Each party releasing a Claim or releasing any other person from an obligation owed to it by that person under clauses 4.5(d), 4.5(g), 4.5(h), 4.5(s), 4.5(u) and 4.5(w) absolutely and irrevocably undertakes to that person, at and from the time each such release is expressed to take effect and subject to all conditions to that release or obligation (if any) having been satisfied in accordance with their terms, that it will not make any Claim in respect of the released Claim or obligation to the extent that the Claim or obligation has been released in accordance with this Scheme and this document may be pleaded as a bar to any such Claim in any jurisdiction whatsoever.

4.8 No inconsistent acts

The parties agree to treat themselves as bound by this Scheme for all purposes and not to act otherwise than in accordance with this Scheme.

5 Grant of authority in favour of the Scheme Administrators

5.1 General grant of authority

- (a) Each Scheme Senior Lender, each Security Trustee, each Senior Agent, the Note Trustee (UK), and each Obligor irrevocably authorises each Scheme Administrator to take all steps and do all other things necessary or advisable to give effect to this Scheme save that this provision shall not modify any of the duties, functions or obligations of any Senior Agent, any Security Trustee or the Note Trustee (UK) under the Relevant Documents to which it is a party. Nothing in this Scheme authorises or permits a Scheme Administrator to act on behalf of a Security Trustee, a Senior Agent or the Note Trustee (UK) in a manner which exposes that Security Trustee, Senior Agent or the Note Trustee (UK) (as applicable) to personal liability. The other parties acknowledge and agree that the Senior Agents, the Security Trustees and the Note Trustee (UK) will not be liable to any other party for any breach by the Scheme Administrator of this clause 5.1(a).
- (b) Without limitation to the generality of clause 5.1(a), on and from the Effective Date, each Scheme Senior Lender and each Obligor appoints each Scheme Administrator as its agent and attorney to enter into, execute and deliver as a deed (or otherwise) any document and take any step necessary or advisable to give effect to this Scheme.
- (c) The appointments and authorities granted under this clause 5 shall be treated for all purposes as being fully effective and having been granted by deed poll. The authorities granted in favour of each Scheme Administrator terminate immediately on the retirement or resignation of each Scheme Administrator in accordance with clause 6 of this Scheme.

5.2 Deed Poll

Without limiting the generality of clause 5.1, on and from the Effective Date, each Scheme Senior Lender irrevocably authorises the Scheme Administrators to execute and deliver, as its attorney and agent, the Scheme Senior Lender Deed Poll.

6 Scheme Administrators

6.1 Appointment of Scheme Administrators to the Company

Each Scheme Administrator will, on and from the Effective Date, be appointed jointly and severally as scheme administrators of this Scheme and may act jointly, severally or jointly and severally.

6.2 Qualification, appointment and cessation

- (a) A person shall only be appointed as a scheme administrator of this Scheme, or replace a Scheme Administrator who ceases to be a scheme administrator of this Scheme (except by reason of resignation as a Scheme Administrator under clause 6.8) if the person:
 - (i) is not disqualified pursuant to section 411(7) of the Corporations Act;
 - (ii) consents to act as a scheme administrator; and
 - (iii) signs and delivers a deed poll substantially in the form of the Scheme Administrators Deed Poll.
- (b) A Scheme Administrator ceases to be a scheme administrator of this Scheme if he or she:
 - (i) is disqualified pursuant to section 411(7) of the Corporations Act;
 - (ii) resigns from the position of Scheme Administrator by not less than 1 month's notice in writing to the Company;
 - (iii) is removed from the position of Scheme Administrator by an order of the Court;
 - (iv) becomes of unsound mind or a person whose person or estate is liable to be dealt with in any way under the law relating to mental health;
 - (v) becomes bankrupt; or
 - (vi) dies.

6.3 Powers in relation to the Company and authorisation of the Scheme Administrators

Subject to clause 6.8, each Scheme Administrator:

- (a) has the power to supervise, administer, implement and carry out its functions as set out in this Scheme;
- (b) has the power to do anything else that is necessary or advisable for the purposes of administering this Scheme; and
- (c) has the power to do anything that is incidental to the exercise of the powers conferred on him or her under clauses 6.3(a) and 6.3(b).

6.4 Exercise of powers

- (a) Each Scheme Administrator shall be entitled to:
 - (i) employ its partners and staff to assist it in the performance or exercise of its duties, obligations, responsibilities and powers under this Scheme;
 - (ii) appoint agents to attend to any matter that the Scheme Administrators might attend to under this Scheme and which the Scheme Administrators are unable to attend to or which it is unreasonable to expect the Scheme Administrators to attend to in person; and
 - (iii) appoint a solicitor, accountant, barrister or other professionally qualified person or persons to assist or advise the Scheme Administrators.
- (b) Except as expressly provided, in exercising or performing any of its duties, obligations, responsibilities or powers under this Scheme, the Scheme Administrators are taken not to act as, nor to have any of the duties of, a trustee.
- (c) Except where this Scheme expressly authorises the Scheme Administrators to act as agent and attorney for the Company in the execution of documents, the Scheme Administrators do not act as agent or attorney for the Company and

Claims or obligations of any kind whatsoever incurred in connection with their role as Scheme Administrators are incurred by them personally.

6.5 Liability

Subject to the Corporations Act, a Scheme Administrator is not, in the performance or exercise of its powers, obligations, functions and duties under this Scheme, personally liable for:

- (a) any Claims or obligations of any kind whatsoever incurred by or on behalf of the Company including any monies borrowed and interest thereon and any contracts adopted or otherwise agreed and any Stamp Duty payable on this Scheme and any tax liable to be remitted or otherwise paid (**Liabilities**);
- (b) any loss or damage of any kind whatsoever caused by or resulting from any act, default or omission (**Losses**); or
- (c) any actions, suits, proceedings, accounts, Claims or demands arising out of this Scheme which may be commenced, incurred by or made by any person and all Costs incurred or Tax liable to be remitted in respect thereof (**Demands**),

whether before, during or after the Effective Date, unless attributable to fraud, wilful misconduct, recklessness, gross negligence, breach of fiduciary duty, or bad faith.

6.6 Indemnity

- (a) The Company shall indemnify each Scheme Administrator for:
 - (i) all Liabilities, Losses and Demands (as defined in clause 6.5); and
 - (ii) all personal liability that the Scheme Administrator may incur in respect of his or her role as Scheme Administrator of the Company,unless attributable to fraud, wilful misconduct, recklessness, gross negligence, breach of fiduciary duty, or bad faith.
- (b) The indemnity under clause 6.6(a) takes effect on and from the Effective Date and is without limitation as to time notwithstanding the removal of either or both of the Scheme Administrators and the appointment of a replacement Scheme Administrator(s) or the termination of this Scheme for any reason whatsoever.
- (c) The indemnity under clause 6.6(a) shall not:
 - (i) be affected, limited or prejudiced in any way by any irregularity, defect or invalidity in the appointment of the Scheme Administrators and shall extend to all actions, suits, proceedings, accounts, Liabilities, Claims and Demands arising in any way out of any defect in the appointment of the Scheme Administrators, the approval and implementation of this Scheme or otherwise; or
 - (ii) affect or prejudice all or any rights that the Scheme Administrators may have against any other person to be indemnified against the Costs, Losses and Liabilities incurred by the Scheme Administrators in, or incidental to the exercise or performance of any of the powers or authorities conferred on the Scheme Administrators by or in connection with this Scheme.
- (d) This indemnity survives completion or termination of this Scheme.

6.7 Remuneration

Subject to the Corporations Act, each Scheme Administrator shall be entitled to remuneration for its services, together with reimbursement for its Costs (reduced by any available Input Tax Credits) from, and in accordance with the terms of its letter of engagement with, the Company.

6.8 Resignation of Scheme Administrator

Immediately following:

- (a) the delivery of the register pursuant to clause 4.3(b) evidencing completion of the Steps; and
- (b) the execution and delivery of all Deeds Poll contemplated under clause 5 to be executed and delivered by the Scheme Administrators,

each Scheme Administrator resigns as (and is taken to have resigned as) a Scheme Administrator of the Company.

7 Standstill and consents

7.1 Standstill

- (a) During the period on and from the Effective Date up to the earlier of the completion of the Steps and the Sunset Date (each inclusive) (the **Standstill Period**), no Scheme Senior Lender may, except for the purpose of enforcing the terms of any Relevant Document or as otherwise expressly provided by this Scheme:
 - (i) give any direction to a Security Trustee, a Senior Agent or the Note Trustee (UK) requiring it to give any notice declaring any amount to be due and payable or payable on demand under or in connection with the Finance Documents;
 - (ii) give any direction to a Security Trustee to enforce any Security Interests;
 - (iii) give any direction to a Security Trustee, a Senior Agent or the Note Trustee (UK) to make demand under any guarantee or guarantee and indemnity given by any person in connection with the Finance Documents;
 - (iv) vote in favour of any amendment, waiver, consent or other proposal which would breach or be inconsistent with this Scheme;
 - (v) take or concur in the taking of any step to wind up any Obligor pursuant to a right under the Finance Documents;
 - (vi) institute or prosecute any legal proceedings in relation to any Claim under the Finance Documents against any Obligor or any other person to be released under this Scheme to the extent that such Claim or obligation is to be released under this Scheme; or
 - (vii) exercise any rights against any Obligor which they may have on the occurrence of an event of default or potential event of default or termination event (in each case, howsoever described) under any Finance Document.
- (b) During the Standstill Period, each Scheme Senior Lender agrees not to dispose of or transfer any right under any Finance Document and instructs each Senior Agent and the Note Trustee (UK) not to register any such disposal or transfer, and any purported disposal or transfer will be ineffective (other than any assignments required or permitted under and in accordance with this Scheme).
- (c) During the Standstill Period, and following the completion of the Scheme, each of the Security Trustee (Aus), the Senior Agent (Aus) and each Scheme Senior Lender must not take, and each such person must not:
 - (i) commence, voluntarily aid in any way, prosecute or cause to be commenced or prosecuted any action, suit or other proceeding arising out of, in connection with or concerning the Scheme or the Finance

Documents (other than the New Financing Documents), in this jurisdiction or any other, against any Obligor or any of their respective assets, except for the sole purpose of enforcing this Scheme; and

- (ii) take any enforcement action (except during the Standstill Period with respect to actions permitted to be taken under the Restructuring Support Deed) under the Finance Documents (other than the New Financing Documents).

7.2 Consent, waiver and release

Each Security Trustee, each Senior Agent, the Note Trustee (UK), each Scheme Senior Lender and each Obligor, in each case, whose consent or agreement is necessary to give effect to the Scheme (as the case requires):

- (a) irrevocably consents and agrees to each Obligor:
 - (i) entering into, or otherwise becoming bound by, each Relevant Document to which it is a party;
 - (ii) performing its respective obligations and transactions under, or as contemplated by those Relevant Documents (including, but not limited to, Court applications for the purposes of this Scheme); and
 - (iii) carrying out any step for the purposes of, or otherwise acting consistently with, those Relevant Documents;
- (b) agrees that no breach, non-compliance, default, event of default or potential event of default or termination event (in each case, howsoever described) under any Finance Document:
 - (i) has occurred (and agrees that it is taken to have not occurred), as a result of;
 - (ii) has been caused by (and agrees that it is taken to have not been caused by);
 - (iii) is continuing (and agrees that it is taken not to be continuing), as a result of; or
 - (iv) will or can occur, as a result of or be caused by,any Obligor entering into any Relevant Document or performing the obligations or transactions under, or contemplated by any Relevant Document (including, but not limited to, any Court applications for the purposes of this Scheme) or carrying out any step for the purposes of, or otherwise acting consistently with the Relevant Documents, and if any such event is deemed to have occurred then it is expressly waived notwithstanding any requirements relating to waiver in the Finance Documents; and
- (c) agrees and consents to any releases which are given, or disposals of rights or other property which are made or occur, by any Obligor under, or which are otherwise contemplated by, the Relevant Documents.

8 Security Trustees, Senior Agents and Scheme Administrators

- (a) Immediately upon the Scheme becoming Effective, notwithstanding any term of any Relevant Document, each Scheme Senior Lender, each Senior Agent, each Security Trustee, the Note Trustee (UK) and each Obligor (as the case requires):
 - (i) provides each Security Trustee with all instructions, consents and authorisations that it requires, or that are necessary or convenient, under the terms of the Relevant Documents and/or the Finance Documents (as relevant) for it to perform its obligations, or to implement the Steps, under

this Scheme and in connection with the New Financing Documents becoming effective, including:

- (A) to enter into documents that amend, or amend and restate (as applicable) the Finance Documents; and
 - (B) to release the UK Obligors from their obligations under the Security Trust Deed and other Finance Documents;
- (ii) provides each Senior Agent and the Note Trustee (UK) with all instructions, consents and authorisations that it requires, or that are necessary or convenient, under the terms of the Relevant Documents or the Finance Documents, for it to perform its obligations, or to implement the Steps, under this Scheme and in connection with the New Financing Documents becoming effective (including to enter into documents that amend, or amend and restate (as applicable) the Finance Documents);
- (iii) directs each Security Trustee, each Senior Agent and the Note Trustee (UK) to:
 - (A) execute, and to instruct any other party which it is entitled to instruct to execute, or otherwise procure to be executed and done, all such documents (including the applicable Deed Poll and applicable New Financing Documents);
 - (B) do, and to instruct any other party which it is entitled to instruct to do, or otherwise procure to be done, all acts or things,

as may be necessary or desirable to be executed or done by it for the purposes of giving effect to this Scheme and confirm that all such actions taken or to be taken by each Security Trustee, each Senior Agent and the Note Trustee (UK) have been done in connection with or pursuant to the Relevant Documents or the Finance Documents and that each of the Security Trustee, each Senior Agent and the Note Trustee (UK) shall have the full benefit of the provisions in the Relevant Documents or the Finance Documents to which it is a party in respect of all such actions (including, without limitation, any indemnification, limitation of liability, exculpation or similar provisions therein); and
- (iv) provides each Security Trustee, each Senior Agent and the Note Trustee (UK) with all other authorisations, instructions and consents (including any power of attorney) that is necessary to enable that Security Trustee, Senior Agent or the Note Trustee (UK) to do anything that this Scheme requires or otherwise provides for that person to do.
- (b) Each Scheme Senior Lender and each Obligor will, if required, do such acts as may be required of it by the Scheme Administrators to give the instructions, consents and notifications referred to in clause 8(a).
- (c) Without limiting the provisions of clause 8(a) and Step 1 (Deeds Poll and Scheme Senior Lender information), on the Effective Date:
 - (i) each Senior Agent, the Note Trustee (UK), each Scheme Senior Lender and each Obligor hereby directs the relevant Security Trustee to give effect to Step 4 (Full release of debt owed by S&G UK), Step 6 (New UK Security Documents), Step 7 (Release of UK Obligors), Step 8 (Release of Australian Obligors), Step 19 (Partial release of Company debt), Step 21 (Release of residual AUD-denominated debt), Step 22 (New Financing Documents) and Step 23 (Releases) of this Scheme; and
 - (ii) each Scheme Senior Lender irrevocably appoints:
 - (A) the Senior Agents as its agent and attorney to execute the relevant New Financing Documents to which it is a party; and

- (B) the Scheme Administrators as its agent and attorney to execute the Voluntary Escrow Deeds and each New Financing Document to which it is a party,

in each case, in accordance with the terms contemplated by those respective Steps.

9 Notices

9.1 Method

All notices, requests, demands, consents, approvals, offers, agreements or other communications ("**notices**") given by a party under or in connection with this document must be:

- (a) in writing;
- (b) signed by a person duly authorised by the sender or, where transmitted by e-mail, sent by a person duly authorised by the sender;
- (c) directed to the intended recipient's address (as specified in clause 9.3 or as varied by any notice); and
- (d) hand delivered, sent by prepaid post or transmitted by e-mail or facsimile to that address.

9.2 Receipt

A notice given in accordance with this clause is taken as having been given and received:

- (a) if hand delivered, on delivery;
- (b) if sent by prepaid post, either:
 - (i) on the day on which the relevant postal service estimates delivery will occur; or
 - (ii) on the first day of the period during which the relevant postal service estimates delivery will occur,based on the most recent estimate published by the relevant postal service as at the date on which the notice is sent;
- (c) if transmitted by e-mail, on transmission; or
- (d) if transmitted by facsimile, at the time recorded on the transmission report indicating successful transmission of the entire notice,

but if the delivery or transmission is not on a Business Day or is after 5.00 pm (recipient's time) on a Business Day, the notice is taken to be received at 9.00 am (recipient's time) on the next Business Day.

9.3 Address of parties

Unless varied by notice in accordance with this clause 9, the parties' addresses and other details are:

Party:	Obligors (including the Company)
Attention:	Kirsten Morrison
Address:	485 La Trobe St, Melbourne VIC 3000
E-mail:	kirsten.morrison@slatergordon.com.au

with a copy to (but which will not constitute notice):

Attention: Leon Zwier
Address: Arnold Bloch Leibler, Level 21, 333 Collins Street, Melbourne VIC 3000
Facsimile: +61 3 9229 9603
E-mail: LZwier@abl.com.au

Party: **Scheme Administrators**
Attention: Mark Korda and Bryan Webster
Address: Level 31, Rialto South Tower, 525 Collins Street, Melbourne VIC 3000, Australia
E-mail: mkorda@kordamentha.com and bwebster@kordamentha.com

Party: **Security Trustee (Aus), Senior Agent (Aus), Security Trustee (UK), Senior Agent (UK), Note Trustee (UK)**
Attention: GLAS Australia
Barnaby Webb / Kate White
Address: Level 39, 385 Bourke Street, Melbourne VIC 3000
E-mail: apac@glas.agency
CC: barnaby.webb@glas.agency; and kate.white@glas.agency

Party: **Scheme Senior Lenders**
Attention: The Senior Agent (Aus)
Address: Level 39, 385 Bourke Street, Melbourne VIC 3000
E-mail: apac@glas.agency
CC: barnaby.webb@glas.agency; and kate.white@glas.agency

with a copy to (but which will not constitute notice):

Attention: Dominic Emmett and David Clee
Address: Gilbert + Tobin, Level 35, Tower Two, International Towers Sydney, 200 Barangaroo Avenue, Barangaroo, NSW 2000, Australia
Facsimile: +61 2 9263 4111
E-mail: demmett@gtlaw.com.au and dclee@gtlaw.com.au

9.4 Requirement for written notice

For the avoidance of doubt, the requirement in clause 9.1(a) applies to all notices unless expressly excluded and no implication to the contrary is to be drawn from the use of the expressions “written” or “in writing” in relation to some but not all notices.

10 General Provisions

10.1 Further assurances

The Scheme Administrators, the Security Trustees, the Senior Agents, the Note Trustee (UK), each Scheme Senior Lender, UK HoldCo and each Obligor must do all things and execute all deeds, deeds poll, instruments, transfers or other documents as may be necessary or desirable (in the opinion of the Company, acting reasonably and in good faith) to give full effect to the terms of this Scheme and the transactions contemplated by it.

10.2 Binding effect of Scheme

This Scheme binds the Company and each Scheme Senior Lender (including each Scheme Senior Lender who did not attend the Scheme Meeting, who did not vote at the

Scheme Meeting, or who voted against this Scheme) and, to the extent of any inconsistency, overrides the terms of any Finance Document (other than a Relevant Document). This Scheme also binds any party who agrees to be bound by this Scheme pursuant to a Deed Poll.

10.3 Stamp Duty

- (a) The Company is liable for, and must pay all Stamp Duty on or relating to the execution, delivery and performance of this Scheme, any instrument executed under or in connection with this Scheme or any transaction evidenced, effected or contemplated by this Scheme.
- (b) If a person other than the Company pays any Stamp Duty on or relating to the execution, delivery and performance of this Scheme, any instrument executed under or in connection with this Scheme or any transaction evidenced, effected or contemplated by this Scheme, then the Company must promptly pay that amount to the paying party on demand.
- (c) This clause 10.3 survives completion of this Scheme.

10.4 Amendment

A provision of this Scheme may not be amended or varied except by an order of the Court pursuant to section 411(6) of the Corporations Act, being an order which imposes alterations or conditions which do not change the substance of this Scheme, including the Steps, in any material respect.

10.5 Governing law and jurisdiction

This Scheme is governed by the laws of Victoria. Each party submits to the non-exclusive jurisdiction of courts exercising jurisdiction there in connection with matters concerning this Scheme.

10.6 Holding statements and register of members

- (a) The Company must procure that, within 10 Business Days after completion of the Steps, each Scheme Senior Lender (or its nominee) to whom New Shares are issued is sent a share certificate or holding statement (or equivalent document) representing the number of New Shares issued to that Scheme Senior Lender pursuant to this Scheme.
- (b) UK HoldCo must procure that, within 10 Business Days after completion of the Steps, each Scheme Senior Lender (or its nominee) to whom New UK HoldCo Shares are issued is sent a share certificate or holding statement (or equivalent document) representing the number of New UK HoldCo Shares issued to that Scheme Senior Lender pursuant to this Scheme.
- (c) On the Implementation Date, the Company must obtain official quotation of the New Shares by ASX in accordance with the requirements of the ASX Listing Rules.

ATTACHMENT A - STEPS REGISTER

Step	Date and time of completion of Step	Signature
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
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23		
24		
25		
26		

Date of completion of all Steps:	
Signed by the Scheme Administrator:	
Name (print):	
Signed by the Scheme Administrator:	
Name (print):	

ATTACHMENT B - SCHEME SENIOR LENDER DEED POLL

ATTACHMENT C - SECURITY TRUSTEE (UK) DEED POLL

ATTACHMENT D - SECURITY TRUSTEE (AUS) DEED POLL

ATTACHMENT E - SENIOR AGENT (UK) DEED POLL

ATTACHMENT F - SENIOR AGENT (AUS) DEED POLL

ATTACHMENT G – NOTE TRUSTEE (UK) DEED POLL

ATTACHMENT H - RELEASED OBLIGOR INDIVIDUAL DEED POLL

ATTACHMENT I - SCHEME ADMINISTRATORS DEED POLL

ATTACHMENT J - UK HOLDCO DEED POLL

ATTACHMENT K - OBLIGORS DEED POLL

ANNEXURE C – PROXY FORM

ACN or ARBN: _____

Capitalised terms in this Proxy Form that are not otherwise defined have the same meaning as is given to those terms in the enclosed Explanatory Statement.

1 Appointment of Proxy

**I/*We (if a firm, strike out "I" and set out the full name of the firm)*

_____ of (address)

_____, a Senior Lender of Slater & Gordon Limited ACN 097 297 400 (**Company**), entitled to attend and vote at a meeting of Senior Lenders of the Scheme Company to be held on 28 November 2017, appoint

(name, address and description of the person appointed)

_____,
or in his or her absence *(name, address and description of the person appointed, or state "the Chairperson")*

_____,
as **my/*our* general/special* proxy to vote at the Scheme Meeting or at any adjournment of that meeting and demand of poll.

(If a special proxy, complete the voting directions below)

**Omit if inapplicable.*

**I/*We* direct our appointed special proxy to, at the Scheme Meeting:

- ☐ vote for the Resolution
- ☐ vote against the Resolution
- ☐ abstain** from voting

****Please note if you mark *abstain*, you are directing your proxy *not to vote on the resolution*.**

2 The Resolution

To consider and, if thought fit, resolve that pursuant to, and in accordance with, section 411 of the *Corporations Act* 2001 (Cth), the scheme of arrangement proposed between the Scheme Company and its Scheme Senior Lenders, as contained in and more particularly described in the Explanatory Statement of which the notice convening this meeting forms part, is agreed to (with or without alterations or conditions as approved by the Court provided that such alterations or conditions do not change the substance of the Scheme, including the Steps, in any material respect).

3 US Securities Law Representations Required to Receive Scheme Securities

We *(select one)*:

- ☐ are located in the United States or are (or are acting for the account or benefit of) a US Person. In the event the Scheme is consummated, we will receive Private Placement Scheme Securities. On our behalf and each other person or account for which we are acting, we make all of the representations and warranties under the heading "*United States – (a) Private Placement Scheme Securities*" in Section 1.13 of the enclosed Explanatory Statement for the benefit of the Scheme Company, UK HoldCo and S&G UK.

- ☐ are located outside the United States and are not (and are not acting for the account or benefit of) a US Person. In the event the Scheme is consummated, we will receive Regulation S Scheme Securities. On our behalf and each other person or account for which we are acting, we make all of the representations and warranties under the heading “United States – (b) Regulation S Scheme Securities” in Section 1.13 of the enclosed Explanatory Statement for the benefit of the Scheme Company, UK HoldCo and S&G UK.

Dated: _____

Please note the requirements of section 127 of the Corporations Act 2001 and use the signature block below as and if appropriate.

.....
Signature of Director

.....
Signature of Director/Company Secretary*
*delete whichever is not applicable

.....
Name of Director (please print)

.....
Name of Director/Company Secretary* (please print)
*delete whichever is not applicable

Directions

This Proxy form should be lodged with the Scheme Company by 9.00 am (Melbourne time) on 26 November at the following address:

Attention: Kirsten Morrison
General Counsel and Company Secretary
485 La Trobe Street
Melbourne, Victoria 3000

OR

by fax to the following fax number:
(03) 9600 0290

OR

by email to the following email address:
Company.Secretary@slaterguson.com.au

ANNEXURE D – INDEPENDENT EXPERT’S REPORT



KPMG Corporate Finance
A division of KPMG Financial Advisory Services
(Australia) Pty Ltd
Australian Financial Services Licence No. 246901
Level 38 Tower Three
300 Barangaroo Avenue
Sydney NSW 2000

ABN: 43 007 363 215
Telephone: +61 2 9335 7000
Facsimile: +61 2 9335 7001
DX: 1056 Sydney
www.kpmg.com.au

P O Box H67 Australia Square
Sydney NSW 1213
Australia

The Directors
Slater & Gordon Limited
485 La Trobe Street
Melbourne Victoria 3000

27 October 2017

Dear Directors

INDEPENDENT EXPERT'S REPORT AND FINANCIAL SERVICES GUIDE

PART ONE –INDEPENDENT EXPERT'S REPORT

1 Introduction

On 29 June 2017, Slater & Gordon Limited (Slater & Gordon or the Company) announced it had entered into a Restructuring Support Deed (RSD) with its lenders who collectively represent over 75 percent of its secured debt by value and over 50 percent of the number of secured lenders (Supporting Lenders). On 31 August 2017, a revised RSD with updated restructuring terms was signed. The RSD is to give effect to the recapitalisation of the Company's equity and debt obligations (the Recapitalisation). Discussions between the Supporting Lenders and the Company were led by Anchorage Capital Group LLC (Anchorage). Funds managed by Anchorage hold a majority share of the secured debt.

The Recapitalisation is intended to reduce the senior secured debt to a sustainable level of debt, and enable the Company to continue to trade and operate and prevent a breach of existing facilities and other finance documents. The Company will seek to implement the Recapitalisation via a creditors' scheme of arrangement (Senior Lender Scheme) between Slater & Gordon and the Senior Lenders (Senior Lenders or Scheme Senior Lenders)¹. As a consequence of the Recapitalisation all existing Slater & Gordon shareholders (Shareholders) will be materially diluted. The Shareholders will have an opportunity to consider and approve the Recapitalisation at the Annual General Meeting (AGM) to be held on 6 December 2017 as

¹ Scheme Senior Lenders are defined in the Senior Lenders Explanatory Statement and means each person who is a Senior Lender as at the date the Scheme becomes effective.

part of the resolution to be put to shareholders in relation to the Recapitalisation (Recapitalisation Resolution). The Recapitalisation of Slater & Gordon is only possible if the Recapitalisation Resolution is passed at the AGM by more than 50 percent of the votes cast by Eligible Shareholders.²

Further to its announcement on 29 June 2017, Slater & Gordon advised on 31 August 2017 that it had entered into an amended binding RSD with 100 percent of its Senior Lenders in relation to the Recapitalisation. The revised terms of the Recapitalisation will provide the Company with the additional liquidity support required for its continued operation prior to the implementation of the Recapitalisation and to fund the business plan thereafter. It will also deliver the substantial debt reduction that was a feature of the original RSD and Slater & Gordon's UK Operations will be transferred to the Senior Lenders.

The key terms of the Recapitalisation involves the following:

- *Working Capital Facility:* The Senior Lenders have committed to increase the Company's existing \$40 million working capital facility as announced on 5 May 2017 by an amount equivalent to a further \$50 million (Super Senior Incremental Facilities). The additional funding will be available for drawdown prior to and following the Recapitalisation. The additional funding will comprise a \$25 million Australian Dollar (AUD) denominated tranche (Super Senior AUD Incremental Facility) (when aggregated with the new working capital facility, the New AUD Super Senior Facility) and a Great British Pound (GBP) equivalent \$25 million denominated tranche (Super Senior GBP Incremental Facility) (in aggregate with the working capital facility, the Super Senior Facilities). The Super Senior Incremental Facilities will be used for general corporate purposes, including one-off costs incurred in connection with the Recapitalisation and working capital support as the business pursues its turnaround plan.
- *Separation of the United Kingdom (UK) Operations:* On implementation of the Senior Lender Scheme, all UK operations and UK subsidiaries will be separated from the Company and transferred to a new UK holding company (UK HoldCo). UK HoldCo will be wholly owned by the Senior Lenders. Following separation, existing Shareholders of the Company will cease to have any interest in the Company's existing UK operations or UK subsidiaries. The Shareholders will retain the opportunity to participate in future value associated with the Australian business only. As a result of this, the Super Senior Secured Facilities will be separated into a \$65 million AUD denominated facility with the Company for the Australian business and a GBP denominated facility (with an aggregate principal amount equal to the commitments made available under the Super Senior GBP Incremental Facility) with Slater & Gordon (UK) 1 Limited (S&G UK) for the UK business. These replacement facilities are to be entered into on implementation of the Recapitalisation.

² Eligible Shareholders means Shareholders as at the Meeting Record Date.

- *Watchstone³ Entitlement Amount:* As partial consideration for the transfer of S&G UK shares from the Company to UK HoldCo, the Company will have recourse to the first \$40 million of any proceeds that S&G UK receives from Watchstone-related claims (Watchstone Entitlement Amount). These proceeds will be applied first to reduce of the Company's New AUD Super Senior Facility.
- *Issue of shares in the Company to Senior Lenders:* On implementation of the Senior Lender Scheme, Senior Lenders will be issued with approximately 95 percent of the equity in the Company. The existing Shareholders will hold approximately 5 percent of the Company post the Recapitalisation. The number of shares to be issued to each Senior Lender will depend on their commitments in respect of the Super Senior AUD Incremental Facility and the New AUD Super Senior Facility.
- *Debt Facilities (Australia):* Outstanding secured debt will be permanently reduced by a combination of releasing, refinancing and restating debt. The senior debt facilities of the Company immediately following implementation of the Recapitalisation will be as follows:
 - New AUD Super Senior Facility (\$65 million): The facility will have a three year term and will be used to refinance the AUD-denominated amounts owing under the existing super senior facility and for working capital purposes
 - Restated debt facility (\$60 million): \$60 million of senior secured debt under the Company's existing Syndicated Facility Agreement (SFA) ⁴ (SFA Facility) following implementation of the Recapitalisation will be refinanced on substantially the same terms but amended with a five year maturity with payment in kind (PIK) interest accrued but not payable until the facility has been repaid, amongst other changes (Restated SFA).
- *Debt Facilities (UK):* In respect of the UK operations (which will be owned 100 percent by the Senior Lenders following implementation of the Recapitalisation), S&G UK's debt facilities on implementation of the Recapitalisation will be as follows:
 - New GBP Super Senior Facility (\$25 million): Aggregated principal amount equal to the commitments made available under the Super Senior GBP Incremental Facility. This facility will be denominated in GBP, will have a three year term and will be used for working capital purposes
 - Convertible Notes (£250 million): S&G UK will issue interest-free convertible notes to the Senior Lenders (Convertible Note Facility). The convertible notes will entitle the holders to payment of any amounts, up to £250 million, received by S&G UK in respect of the net proceeds of Watchstone-related claims above \$40 million and certain net

³ Watchstone plc, formerly Quindell plc.

⁴ Syndicated Facility Agreement dated 29 May 2015, restated on 23 December 2016.

proceeds of any asset divestments and insurance proceeds received in respect of the UK operations.

- Approval of the Shareholder Claimant Scheme, as discussed below.

On 10 July 2017, the Company entered into a Heads of Agreement in order to resolve a claim brought against the Company by Mr Matthew Hall. On 21 September 2017, the Company entered into a binding settlement deed to settle the claim brought against the Company by Mr Matthew Hall. As a result, in order to manage this and other recent and potential claims that have been brought against the Company by Shareholder(s) in relation to the acquisition, dealing in or selling of Slater & Gordon shares over a set six year period (Shareholder Claimants), the Company seeks to implement the binding settlement deed via a creditor's scheme of arrangement between Slater & Gordon and the Shareholder Claimants (Shareholder Claimant Scheme). Due to the inter-conditional nature of the Shareholder Claimant Scheme and the Senior Lenders Scheme, approval of the Shareholder Claimant Scheme is required to facilitate the Recapitalisation.

The Shareholder Claimant Scheme is designed to protect the interests of the Company's clients, creditors, current and future Shareholders and other stakeholders having regard to the current financial position of the Company. It is also part of a comprehensive solution to resolve and compromise all potential claims raised by Shareholder Claimants against Slater & Gordon and its current and former Officers.

Further details in relation to the Recapitalisation are provided in Section 7 of this report and Section 7 of the Explanatory Statement to the Senior Lender Scheme (Senior Lenders Explanatory Statement). Further details in relation to the Shareholder Claimant Scheme are provided in Section 13 of this report and Section 6 of the Explanatory Statement to the Shareholder Claimant Scheme (Shareholder Claimants Explanatory Statement).

To assist the Shareholders and the Senior Lenders in assessing the Recapitalisation and the Shareholder Claimants in assessing the Shareholder Claimant Scheme, the Directors of Slater & Gordon have requested that KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division) (KPMG Corporate Finance) prepare an Independent Expert's Report (IER):

- addressing financial matters in relation to a proposal by Slater & Gordon to apply for orders under Section 411 of the Corporations Act 2001 (Cth) (Corporations Act) convening a meeting of the Senior Lenders to consider the Senior Lender Scheme
- to provide an opinion on whether the Recapitalisation is fair and/or reasonable to Shareholders, in connection with the resolution to be put to Shareholders at the AGM
- to provide an opinion on whether the Shareholder Claimant Scheme is in the best interests of Shareholder Claimants for the purposes of Section 411 of the Corporations Act.

This report should be considered in conjunction with, and not independently of, the information set out in the Notice of Meeting and the Explanatory Memorandum, the Senior Lenders Explanatory Statement and the Shareholder Claimants Explanatory Statement.

The Recapitalisation is subject to the satisfaction of a number of conditions which are set out in Section 2.3 of the Senior Lenders Explanatory Statement and Section 7 of this report.

The Shareholder Claimant Scheme is subject to the satisfaction of a number of conditions which are set out in Section 6.2 of the Shareholder Claimant Explanatory Statement and Section 13 of this report.

Slater & Gordon is an Australian company that is listed on the ASX. As at 30 June 2017, Slater & Gordon employed around 4,210 people with operations in Australia and the United Kingdom (UK) (not accounting for the impact of redundancies between 30 June 2017 and the Scheme implementation). Immediately prior to the announcement of the Recapitalisation on 29 June 2017, Slater & Gordon had a market capitalisation of \$31.9 million.⁵

The Senior Lenders are defined in Section 12 of the Senior Lender Explanatory Statement. The Shareholder Claimants are defined in Section 10 of the Shareholder Claimants Explanatory Statement.

Further information regarding KPMG Corporate Finance as it pertains to preparation of this report is set out in Appendix 1.

KPMG Corporate Finance's Financial Services Guide is contained in Part Two of this report.

2 Requirement for our report

The requirement of the IER is in accordance with Section 411 of the Corporations Act and in accordance with the guidance provided by the Australian Securities and Investment Commission (ASIC).

2.1 Requirement under Section 411 of the Corporations Act

Section 411(3) of the Corporations Act requires that an explanatory statement issued in relation to a proposed scheme of arrangement under Section 411 of the Corporations Act include information that is material to the making of a decision by a creditor or member as to whether or not to agree with the relevant proposal.

The report prepared by the expert must state whether, in the expert's opinion, the proposed scheme of arrangement is in the best interests of the members of the body as a whole and set out the expert's reason(s) for forming that opinion.

In undertaking our work, we have referred to guidance provided by ASIC in its Regulatory Guides, in particular Regulatory Guide 111 'Content of expert reports' (RG 111), which outlines the principles and matters which it expects a person preparing an independent expert's report to consider when providing an opinion on whether a transaction is "fair and reasonable, and therefore in the best interests" of shareholders.

⁵ On 28 June 2017, Slater & Gordon had 347.2 million shares outstanding with the closing price of \$0.09 per share.

Our report provides opinion to the Shareholders, Senior Lenders and the Shareholder Claimants. Further details of the relevant technical requirements and the basis of assessment in forming our opinions are set out in Section 8 of this report.

3 Opinion for the Senior Lenders

KPMG Corporate Finance's assessment of the financial matters and conclusions as to other matters relevant to the Senior Lenders and in accordance with Section 411 of the Corporations Act are detailed below.

The financial and other matters we have considered relate to:

- the solvency of Slater & Gordon before and immediately after the Recapitalisation
- the expected return to Senior Lenders if the Recapitalisation is or is not approved
- the likely outcome for the Company should the Scheme not be implemented.

We have undertaken this assessment with reference to the definition of solvency set out in Section 95A of the Corporations Act and common law principles (Appendix 8 of this report). Specifically in regards to solvency, we have considered the following:

- primary test – cash flow test
- indicative test – balance sheet test
- indicative test – profit and loss test
- other considerations including:
 - a consideration of any unused sources of finance available, assets available for sale, and existing arrangements with principal financiers
 - financing analysis including facility agreements, drawn and undrawn facilities, and debt amortisation requirements
 - ability to raise equity
 - litigation
 - audit opinions, and the basis of going concern assumptions.

We have also analysed the return to Senior Lenders if the Recapitalisation is or is not approved by having regard to:

- the value of Scheme Senior Lenders' various interests in the Company if the Recapitalisation is approved (such as ordinary shares and secured debt interests)
- the value of Scheme Senior Lenders' various interests in the S&G UK group if the Recapitalisation is approved (such as ordinary shares, convertible notes and secured debt interests)

- the return to Scheme Senior Lenders if the Recapitalisation is not approved having regard to a range of different solvency scenarios which may be applicable.

The outcome of our work is set out in Table 1:

Table 1: Summary of Opinion for Senior Lenders

Item	Scope	Conclusion								
1	The solvency of the Company prior to the Recapitalisation	Slater & Gordon is at risk of becoming insolvent sometime by May 2018 when the first three tranches of senior debt fall due. Slater & Gordon is unlikely to be able to repay the amount due, nor support this level of debt, or successfully refinance the debt due in May 2018.								
2	The solvency of the Company if the Recapitalisation is approved	We are of the opinion that Slater & Gordon will be solvent immediately following the implementation of the Recapitalisation. We highlight that the continued solvency of the Company remains dependent on the Company improving its underlying financial performance, including: achieving revenue targets in key practice groups in PIL, project litigation and general law; successfully executing the reorganisation and the performance improvement programs, improving staff morale, complying with banking covenants, and experiencing no adverse external impacts on the businesses (such as changes in legislation and/or regulatory intervention).								
3	The value of Scheme Senior Lenders' interests if the Recapitalisation is approved	Following the Recapitalisation, the Scheme Senior Lenders will hold shares, warrants and secured debt interests in the Company. The implied value of the Scheme Senior Lenders' interests in the Company if the Recapitalisation is approved is estimated as follows: <table><tr><td></td><td>Low</td><td>High</td><td>Mid</td></tr><tr><td>Scheme Senior Lenders (controlling interests)</td><td>22.4%</td><td>37.2%</td><td>29.8%</td></tr></table> This represents the return to Senior Lenders as a percentage of Gross Debt (refer Section 12.1 of this report for further details)		Low	High	Mid	Scheme Senior Lenders (controlling interests)	22.4%	37.2%	29.8%
	Low	High	Mid							
Scheme Senior Lenders (controlling interests)	22.4%	37.2%	29.8%							
4	The return to Scheme Senior Lenders if the Recapitalisation is not approved	The expected return from an insolvency of Slater & Gordon is highly uncertain due to the complexity of its operations across multiple sites and jurisdictions, together with risks of regulatory intervention. The return to Scheme Senior Lenders if the Recapitalisation is not approved is estimated as follows: <table><tr><td></td><td>Low</td><td>High</td><td>Mid</td></tr><tr><td>Scheme Senior Lenders</td><td>2.0%</td><td>22.9%</td><td>12.4%</td></tr></table>		Low	High	Mid	Scheme Senior Lenders	2.0%	22.9%	12.4%
	Low	High	Mid							
Scheme Senior Lenders	2.0%	22.9%	12.4%							
5	The likely outcome for the Company should the Recapitalisation not be implemented	In our opinion, if the Recapitalisation is not approved, the Company would likely be placed into external administration.								

Source: KPMG Corporate Finance analysis.

Further details of the solvency analysis are detailed in Section 10 and 12 of this report.

4 Opinion for the Shareholders

In our opinion, having assessed the Recapitalisation in relation to Shareholders, we consider the Recapitalisation **to be fair and reasonable to Shareholders, in the absence of a superior proposal.**

In arriving at this opinion, we have considered the terms of the Recapitalisation. We have assessed whether the Recapitalisation is:

- *fair*, by comparing our assessed value of Slater & Gordon prior to the Recapitalisation, on a controlling interest basis, to our assessed value of a share in Slater & Gordon following completion of the Recapitalisation, on a minority (portfolio) basis
- *reasonable*, by assessing for Shareholders:
 - implications of the Recapitalisation
 - available alternatives to the Recapitalisation, and
 - the consequences of not approving the Recapitalisation.

The Recapitalisation of Slater & Gordon is being proposed in order to reduce the total secured debt to a sustainable level. This will enable the Company to continue to trade and operate and prevent a breach of the SFA and other finance documents. During FY16, Slater & Gordon experienced a significant decline in earnings as a result of underperformance of the UK business. As a result, during 2016, Slater & Gordon commenced operational restructure and performance improvement programs to improve profitability and cash performance. Despite this, the Company has struggled to meet its debt obligations and began negotiating with lenders to amend its debt facilities and recapitalise its business. Without the Recapitalisation, the current total secured debt cannot be sustained and a breach of the SFA would arise.

As a starting point, we have assessed whether the Recapitalisation is fair by comparing the value prior to the Recapitalisation, on a control basis, to that post the Recapitalisation on a non-controlling basis. In our assessment of value we have not considered the distressed nature of the Company consistent with the requirements of RG 111.

We have valued the Pre-Recapitalisation and the Post-Recapitalisation value of Slater & Gordon as at the Senior Lender Scheme Implementation Date⁶ on a capitalisation of earnings approach, adopting a future maintainable earnings based on a reasonable maintainable earnings before interest, tax depreciation and amortisation (EBITDA) margin determined having regard to observable historical and future performance, comparable company analysis and discussions with Management.

In our valuation we have determined an implied maintainable earnings margin of the Company on the basis that it is a going concern. This has enabled us to assess what we considered a

⁶ Implementation Date means the earlier of the:

- a) fifth Business Day after the Effective Date, except in the case where the Implementation Date would fall on a date between 24 December 2017 and 3 January 2018 (inclusive), in which case the Implementation Date will be 5 January 2018; and
 - b) Sunset Date
- but, in any event, not earlier than the Business Day after the Calculation Date.

reasonable level of earnings expected for the business having regard to the inherent assumptions underlying our methodology and recognising the inherent uncertainties associated with future operations given the existing issues the business is facing.

Our valuation analysis indicates that Shareholders will be better off post the Recapitalisation. Fundamentally this arises because Slater & Gordon's current debt is significantly greater than the value of its assets Pre-Recapitalisation. On this basis, no value is attributable to Shares⁷ Pre-Recapitalisation, as the implied equity value is negative. However, Post-Recapitalisation the value is between \$0.003 per Share and \$0.011 per Share.

This outcome, particularly that no value is attributed to the Shares Pre-Recapitalisation, is not unexpected given the current position of Slater & Gordon and the current level of debt in the business.

In forming our opinion as to the reasonableness of the Recapitalisation, we have considered a number of factors relevant to Shareholders. The principal factors considered when determining the conclusion include:

- in our view the Recapitalisation represents the most superior option currently available to Shareholders. If the Recapitalisation is not approved, Slater & Gordon is at risk of becoming insolvent some time by May 2018 when the first three tranches of the SFA fall due, with the business likely to enter into external administration
- the significant de-risking of the business, with the de-coupling of the UK business from the Australian business, with the continuing structural issues that the UK business faces
- it reduces the net debt of the Company and provides a more sustainable capital structure and an improved liquidity over time to enable Slater & Gordon to continue to trade whilst the benefits of the operational restructure and the turnaround strategies are fully realised
- the removal of liquidity concerns may result in improved business performance as the Management can focus on improving operational results, rather than on the liquidity concerns as well as reducing the uncertainty for employees.
- the Shareholders' investments will be significantly diluted.

Other considerations such as the costs associated with the Recapitalisation had a lesser impact on our reasonableness conclusion. The key factors and other considerations are discussed in more detail in Sections 4.2 and 4.3 respectively of this report.

In relation to these matters, notwithstanding their subjective nature, we consider the benefits associated with the Recapitalisation to considerably exceed the negatives, particularly given the potential adverse effects should the Recapitalisation not be approved.

⁷ Share refers to the fully paid ordinary shares in the capital of the Scheme Company.

The principal matters that KPMG Corporate Finance has taken into consideration in forming its opinion that the Recapitalisation is fair and reasonable are summarised in the remainder of Section 4 below.

4.1 The Recapitalisation is fair

Our fairness assessment has been based on comparing the value of a Share prior to the Recapitalisation, on a control basis, to that post the Recapitalisation on a non-controlling basis. In our assessment of value we have not considered the distressed nature of the business consistent with the requirements of RG 111.

Whilst Anchorage and the Senior Lenders are not acquiring 100 percent of Slater & Gordon we are required to consider the value as if the offer was for full control. Therefore, we have assessed the value of a Share based on 100 percent ownership, having regard to synergies which would be generally available to a broad pool of potential purchasers.

We have applied a capitalised earnings approach to derive the value of Slater & Gordon on a controlling basis. Whilst Management forecasts were prepared, the capitalised earnings approach was adopted given the changes in the Company and recent challenges it faced as there is considerable uncertainty that the forecasts will be achieved or are sufficiently reliable. Therefore, the discounting of cash flows methodology has not been utilised for the purpose of valuing Slater & Gordon as the primary methodology.

The capitalisation of earnings approach is a commonly used method for valuing professional services businesses given the availability of comparable company and comparable transaction data. We consider EBITDA to be the most appropriate metric for the capitalised earnings valuation of Slater & Gordon's business operations. In adopting EBITDA, given the current underperformance, we have assessed the value of Slater & Gordon based upon an assessment of its potential maintainable earnings, whereby an implied maintainable earnings figure is assessed taking into account an estimate of Slater & Gordon's maintainable revenue and the earnings margin it may be able to achieve upon successfully implementing business efficiency improvement initiatives which would result in the business operating on a maintainable basis. To this, capitalisation multiples (which account for the costs in realising these initiatives) are applied to determine the fair value of Slater & Gordon. This, by necessity, has required an increased level of judgement as the comparative company and transaction date is based on actual and forecast earnings whereas our earnings are based on a "maintainable business" framework.

Under this approach, we estimate the implied control value of a Share, prior to the Recapitalisation, to be in the range of negative \$1.652 per share to negative \$1.194 per share, with the assessed value of a Slater & Gordon Share to be nil, as outlined in the table below.

Table 2: Slater & Gordon Valuation Summary - Pre-Recapitalisation analysis

\$ million	Report Section	Value range Pre-Recapitalisation	
		Low	High
Adopted maintainable revenue	11.4.1.1	580.0	620.0
Maintainable business margin (EBITDA)	11.4.1.2	9.00%	9.50%
Maintainable earnings (EBITDA)		52.2	58.9
EBITDA multiple (on a controlling basis) (times)	11.4.2	4.0x	5.0x
Enterprise value of Slater & Gordon		208.8	294.5
Less: total debt as at 30 June 2017	11.6.1	(782.4)	(782.4)
Surplus assets: Watchstone claim amount		-	73.1
Implied equity value of Slater & Gordon		(573.6)	(414.7)
Issued shares (million) as at 30 June 2017	11.6.3	347.2	347.2
Implied equity value per share on a controlling basis (\$)		(1.652)	(1.194)
Assessed equity value per share on a controlling basis (\$)		nil	nil

Source: Slater & Gordon Management, Annual Reports and Half Year Reports, KPMG Corporate Finance analysis

Note: 1. GBP/AUD exchange rate of 1.63093 as at 1 September 2017 adopted
2. Tables may not add due to rounding.

Our enterprise value reflects 100 percent ownership of Slater & Gordon and incorporates a control premium. In assessing an appropriate premium for control in accordance with RG 111, we have only considered those synergies and benefits which would be available to more than one potential purchaser (or a pool of potential purchasers) of Slater & Gordon.

In adopting capitalised earnings as our primary methodology to value the Shares we have taken into consideration:

- the expected maintainable earnings of Slater & Gordon it may be able to achieve in the short to medium term, assuming the successful implementation of the business efficiency and other transformative initiatives to improve the business (refer to Section 11.4.1 of this report)
- our assessment of an appropriate earnings multiple to be applied to the selected maintainable earnings taking into consideration the nature of the business, growth expectations, risks and costs associated with achieving the forecast growth and other risks and exposure to changes in the industry and outlook (refer to Section 11.4.2 of this report)
- a control premium that reflects the current status of the operational restructure and the turnaround strategies that have already been implemented, the current underperformance of the Company and how this is likely to impact what a prospective purchaser would pay for the Company
- debt requirements, which has not had current cash balances used to offset against the total debt as the cash balances have been assumed to be needed for working capital given the nature of the operations and the short term cash requirements of the business
- the potential value of the claim against Watchstone. From discussions with Management and taking into consideration other publicly available information, the value of the Watchstone claim has been considered under the scenario that the claim is unsuccessful, for

the low value, to assuming the claim is successful after a positive court case with certain monies awarded as damages as the high value. This is discussed in detail in Section 11.6 of this report

- the issued Shares exclude the Shares that could be issued upon exercise of warrants issued as part of the amendment to the original SFA in 2016 as the number of Shares to be issued is currently undeterminable and there are specific circumstances in which the warrants can be exercised. However, the impact of including the warrants would be to further dilute the equity value per share (refer Section 9.7 of this report).

The key factors considered in our assessment of the value of Slater & Gordon are as follows:

- the changes in the industry and the compression of margins, particularly the underperformance of the UK division
- the stabilisation of the Australian industry, noting the entry of new competitors that are able to identify case files at an earlier stage of the value cycle through the use of advanced data analytics
- Slater & Gordon's generation of revenue via a number of channels including: direct to consumer marketing, relationship management and business development and claims management companies and insurers and insurance brokers
- new business generation in the personal injury sector does not depend on the delivery of a material number of clients in any one practice group or service line by individual lawyers. However there has been a number of resignations since the announcement of the Recapitalisation which may potentially impact operations
- the operational restructure and turnaround strategies to improve profitability and cash performance
- ability to maintain market share in the competitive market
- the strength of its brand.

In relation to the Pre-Recapitalisation implied equity value on a controlling basis, it is negative primarily because Slater & Gordon's outstanding debt is greater than the assessed enterprise value of the Company.

In contrast to the Pre-Recapitalisation equity value, we have set out below the value per Share Post-Recapitalisation, which is based on an equity value for a minority Shareholder and the number of Shares Post Recapitalisation.

This value per Share Post-Recapitalisation also takes into account the reduction of total debt (which incorporates certain Recapitalisation costs expected to be incurred and paid) and considers an estimate of the remaining cost of the Recapitalisation and restructure to be approximately \$0.8 million. The calculation of the value per Share Post-Recapitalisation is shown in the table below.

Table 3: Slater & Gordon Valuation Summary - Post-Recapitalisation analysis

\$ million	Report Section	Value range Post-Recapitalisation	
		Low	High
Adopted maintainable revenue	11.5.1.1	205.0	215.0
Maintainable business margin (EBITDA)	11.5.1.2	14.0%	14.5%
Maintainable earnings (EBITDA)		28.7	31.2
EBITDA multiple (on a controlling basis) (times)	11.5.2	4.75x	5.25x
Enterprise value of Slater & Gordon		136.3	163.7
Less: net debt (working capital and senior secured debt facilities)	11.6.1	(111.0)	(106.0)
Estimated remaining Recapitalisation & restructure costs		(0.8)	(0.8)
Surplus asset: Watchstone Entitlement Amount	11.6.2	-	35.9
Equity value of Slater & Gordon on a controlling basis		24.5	92.7
Less: minority discount (16.67%) ²		(4.1)	(15.5)
Implied equity value of Slater & Gordon on a minority basis		20.4	77.3
Issued shares (million) Post-Recapitalisation	11.6.3	6,944.9	6,944.9
Implied equity value per share (\$)		0.003	0.011
Assessed equity value per share (\$)		0.003	0.011

Source: KPMG Corporate Finance analysis

Note: 1. Tables may not add due to rounding

2. A 20.0% control premium translates into a 16.67% minority discount.

The Post-Recapitalisation valuation of Slater & Gordon reflects an equity value of Slater & Gordon on a minority basis reflecting the Australian operations only.

In adopting capitalised earnings as our primary methodology to value the Shares we have taken into consideration:

- the expected maintainable earnings Post-Recapitalisation that Slater & Gordon may be able to achieve in the short to medium term, assuming the successful implementation of the business efficiency and other transformative initiatives to improve the business. Specifically, as Slater & Gordon Post-Recapitalisation consists of the Australian operations only, the basis in determining the expected maintainable earnings is with reference to the maintainable revenue and maintainable EBITDA margin of the Australian operations (refer to Section 11.5.1 of this report)
- our assessment of an appropriate earnings multiple to be applied to the selected maintainable earnings taking into consideration the nature of the business, growth expectations, risks and costs associated with achieving the forecast growth and other risks and exposure to changes in the industry and outlook (refer to Section 11.5.2 of this report)
- a minority discount, as we are considering the value of the business on a non-controlling basis
- debt requirements. A range of \$106.0 million to \$111.0 million for net debt was adopted
- the potential value of the claim against Watchstone of which the Australian operations will be entitled to the first \$40.0 million from the payment of deferred consideration in respect of the transfer of the UK operations to UK HoldCo. From discussion with Management, and

taking into consideration other publicly available information, the value of the Watchstone claim has been considered under the scenario that the claim is unsuccessful, for the low value, to assuming the claim is successful after a positive court case with certain monies awarded as damages resulting in the \$40.0 million being paid to Slater & Gordon, Post-Recapitalisation, as the high value. This is discussed in detail in Section 11.6 of this report

- the issued Shares exclude shares which would be issued upon exercise of the warrants held by certain Senior Lenders pursuant to the SFA as the number of shares to be issued is currently undeterminable. However, the impact of including the shares issued upon exercise of the warrants, once the numbers to be issued are known, would be to further dilute the equity value per Share (refer Section 9.7 of this report)
- the share consolidation (100 to 1 conversion ratio) was not considered in our analysis as this resolution will be brought to Shareholders at the AGM and, regardless if the share consolidation is implemented or not, our overall opinion does not change.

We have cross-checked our Pre-Recapitalisation and Post-Recapitalisation value of Slater & Gordon by comparing it to a high level Discounted Cash Flow (DCF) approach and share trading analysis. In this regard:

- the implied discount rates ascertained from the values of Slater & Gordon Pre-Recapitalisation and Post-Recapitalisation and the forecast cash flow prepared by Management is within the range we would consider to be reasonable, noting the current performance of the business and the efforts required to improve the business performance
- the trading price for Shares is greater than our assessed valuation. In our view, this most likely reflects some optionality in terms of the timing of a turnaround of the business operations and restructure of the debt facilities as, based on current financial results, Slater & Gordon is not capable of meeting its present interest and principal obligations. As such we do not consider the trading price indicates that our valuation is not appropriate.

A comparison of the implied value per Share on a Pre-Recapitalisation and Post-Recapitalisation basis is outlined in the table below.

Table 4: Comparison of Value Pre and Post-Recapitalisation

\$ unless otherwise stated	Report Section	Value range	
		Low	High
Implied value per Slater & Gordon share Pre-Recapitalisation	4.1	(1.652)	(1.194)
Assessed value per Slater & Gordon share Pre-Recapitalisation	4.1	nil	nil
Implied value per Slater & Gordon share Post-Recapitalisation	4.1	0.003	0.011

Source: KPMG Corporate Finance analysis.

The implied value increases from a range of negative \$1.652 per Share to negative \$1.194 per share Pre-Recapitalisation (with a nil assessed value) to a range of \$0.003 per Share to \$0.011 per share Post-Recapitalisation. In calculating the Post-Recapitalisation equity value of Slater & Gordon we note:

- the SFA debt is compromised to \$60.0 million for the Australian operations following implementation of the Senior Lender Scheme

- the Senior Lenders receive an issuance of ordinary equity in Slater & Gordon as well as in the UK business
- New Super Senior Facilities totalling \$90.0 million are expected Post-Recapitalisation. Of this \$90.0 million, the GBP equivalent of \$25.0 million will be held by the UK business, with the remaining \$65.0 million provided to the Australian business.

This reduces the financial leverage of the Company sufficiently to create a positive equity valuation. A significant consequence of the Recapitalisation is that the Shareholders are no longer exposed to the UK operations and that there is also a significant dilution to current Shareholders' interest in the Company.

According to RG 111, the Recapitalisation should be considered fair if the value per share Post-Recapitalisation is equal to or higher than our assessed value of a Slater & Gordon share Pre-Recapitalisation.

In this respect, as the assessed value range per Share Pre-Recapitalisation is lower than our assessed value range for a Share Post-Recapitalisation, we therefore consider the Recapitalisation to be fair.

We have set out the valuation in further detail in Section 11 of this report.

4.2 The Recapitalisation is reasonable

An offer is deemed by RG 111 to be "reasonable" if it is fair. However an offer can also be reasonable even if despite not being fair there are sufficient reasons for Shareholders to accept the offer in the absence of any higher bid before the close of the offer.

4.2.1 Key factors

Outlined below are the key factors which would need to be taken into consideration when assessing the reasonability of the Recapitalisation.

In our view the Recapitalisation represents the most superior option currently available to Shareholders

In assessing the merits of the Recapitalisation, we have considered the relative attractiveness of other options available to Slater & Gordon. The Company and their financial advisers have reviewed a range of recapitalisation measures and other options, including:

- consensual restructuring
- refinancing of the current debt instruments
- capital raisings
- sale of assets
- maintaining the status-quo.

The Company sought the Senior Lenders' consent to restructure the obligations under the SFA however were unable to obtain the unanimous consent required to implement a consensual restructure of the obligations.

Both a refinancing of the current debt instruments or an extension of their maturities would not have resulted in a material and sustainable reduction in the financial obligations for Slater & Gordon. As such, future interest and principal payments would not have been reduced sufficiently. Also having sought offers, the Company has not received any feasible offers to refinance its current indebtedness.

Raising additional capital from existing Shareholders was considered. However, given the proximity to the Company's recent capital raising in 2015 for the PSD acquisition, current market capitalisation (being less than 5 percent of Slater & Gordon's outstanding debt), current trading performance and other prevailing market conditions, the Directors do not consider that a further capital raising exercise at this stage would raise sufficient funds to address the Company's current requirements.

It is not possible to maintain the status quo without a restructure. As stated previously, based on current financial results Slater & Gordon is not capable of meeting its present interest and principal obligations.

The proceeds from the sale of some or all of Slater & Gordon's assets is viewed by the Directors as insufficient to reduce the debt to a sustainable level, given the current performance of the group and the performance improvement requirements to be achieved by the Company.

The Recapitalisation is superior to all other options currently available to the Company and, according to the Directors, represents the only executable option for Slater & Gordon. It secures liquidity to continue the business without triggering an insolvency event, providing a sustainable level of senior secured debt and a stable platform for its future operations in Australia. It also gives Shareholders an opportunity to participate, although limited given the dilution of their interests, in a potential future upside pending any business performance improvements.

If the Recapitalisation is not implemented, Slater & Gordon will likely be at risk of becoming insolvent some time by May 2018 when the first three tranches of the SFA fall due. In such circumstances Shareholders could expect to realise zero value (refer to Section 10 of this report).

Post-Recapitalisation, Shareholders will only be exposed to the Australian operations and the Australia legal industry

The Senior Lender Scheme will result in an 'effective divestment' of the UK operations from the Australian operations, with Shareholders holding only shares in the Australian operations post implementation of the Senior Lender Scheme. Post the separation transition period, Shareholders will only be exposed to the Australian legal industry and the Australian operations, resulting in a change to the risk profile of the investment in Slater & Gordon with the exposure to the risks and opportunities of the UK operations removed. In addition, removing the UK operations strategically changes the investment as the market position and operations of the

Australian and UK businesses are substantially different. The risk and reward profile of the current investment in Slater and Gordon will change creating a number of factors to consider including that:

- it will enhance the opportunity and potential for Management to focus on, develop and execute their strategy for the Australian operations to maximise returns to Shareholders
- it will allow Management to focus on the Australian operations without potential for conflicting interests and capital allocation issues with the UK operations
- Management will be able to manage their financial policies, operational risks and capital structure having regard to the characteristics of the Australian operations only
- by removing the UK operations it may enhance the prospects of a change in control transaction, which may allow Shareholders to realise some additional value given the current underperformance of the operations
- it will improve EBITDA margins due to the removal of the lower effective margin UK operations
- there will also be a loss of geographical diversification inherent in the mix of business operations. Geographical diversification is based on the premise that markets in different parts of the world may not be highly correlated with one another.

The Recapitalisation provides Slater & Gordon with an improved financial viability over time

The Recapitalisation will reduce the secured debt owing by the Company to the Senior Lenders and will provide a more sustainable capital structure. The positive earnings impact of the Recapitalisation reflects the reduced interest payments due to the reduced debt obligations. Interest requiring capitalisation was \$42.2 million Pre-Recapitalisation. The reduced interest payments will help the Company's ongoing liquidity and ability to continue to trade and operate its business.

Taking into consideration the reduction in cash interest costs that the Recapitalisation will provide, which partially arises as a function of the facility structure, the Company should have significantly increased financial viability over the coming years.

The Recapitalisation reduces the indebtedness of the Company and provides a more sustainable capital structure

The Recapitalisation will extend the maturity profile of the debt instruments, reduce the indebtedness of the Company and will provide Slater & Gordon with greater certainty around planning in the current business. The reduced secured debt will provide a more sustainable capital structure for the Company.

The Recapitalisation provides certainty to Shareholders

Certainty over the secured debt reduces risk for the Company and Shareholders. Alternative options in the absence of the Recapitalisation, including potential insolvency, carry significant

uncertainty. In our view, alternative options are unlikely to result in Shareholders realising greater value than if the Recapitalisation is implemented.

The Recapitalisation and improved earnings position going forward will allow Management to focus on improving business performance and operational results.

Shareholders' investments will be significantly diluted

Shareholders' investments will be significantly diluted. Currently, they hold 100 percent of Slater & Gordon's ordinary equity, whereas Post-Recapitalisation they will hold approximately 5 percent. As such, Shareholders will have very limited ability to influence the future direction of the Company and may potentially have unmarketable parcels of Shares.⁸

Change of substantial shareholding and future intentions

Following the Recapitalisation, Anchorage will be the majority Shareholder and has the right to nominate four of the seven Directors of the Board⁹. Consequently Anchorage, will be able to influence the management and operations of Slater & Gordon and will have the ability to approve ordinary resolutions at shareholder meetings without the support of other shareholders.

4.3 Other considerations

In forming our opinion, we have also considered a number of other factors outlined below. Whilst we do not necessarily consider these to be advantages or disadvantages of the Recapitalisation, we consider it appropriate to address the following considerations in arriving at our opinion:

- under the RSD, the Board has agreed to undertake a Board renewal process which will enable the Senior Lenders, who will own approximately 95 percent of Slater & Gordon equity on implementation of the Recapitalisation, to elect new Directors. All existing Directors will resign in due course as new Directors are appointed
- costs associated with the Slater & Gordon schemes, being the Shareholder Claimant Scheme and the Senior Lender Scheme, are expected to be \$21.6 million (excluding GST) consisting of:
 - legal and advisory costs of \$15.0 million (of which part relates to the Shareholder Claimant Scheme), with an estimated \$11.5 million of transaction costs to be payable by Slater & Gordon in relation to the Recapitalisation regardless of whether the Recapitalisation is implemented. We note however that implementing any alternative option would also likely impose considerable costs on Slater & Gordon to implement

⁸ The ASX Listing Rules define an unmarketable parcel as those with a market value of less than \$500.

⁹ Board refers to the board of directors of the Scheme Company.

- o other related payments of \$6.6 million (of which part relates to the Hall Proceeding Settlement)
- in executing the turnaround strategy and business improvement initiatives, Slater & Gordon has estimated that \$15.5 million of costs would be required to restructure the Company
- Anchorage and the Senior Lenders will have a collective ownership of approximately 95 percent of Slater & Gordon. It is likely that there will be limited liquidity in the remaining Shares. In addition, following the implementation of the Recapitalisation, Shares issued to the Senior Lenders will be subject to transfer restrictions under the voluntary escrow deeds which will restrict the Senior Lenders from dealing in these Shares until they are released from escrow
- without the support of Anchorage and the Senior Lenders, it is likely there would be a lower possibility of any other transaction emerging
- Slater & Gordon will receive up to \$40.0 million of the Watchstone Proceeds¹⁰ as a result of transferring the Shares in S&G UK to UK HoldCo (which will be wholly owned by the Senior Lenders following implementation), which will be used to pay down part of the New AUD Super Senior Facility
- we have not attributed any value to tax losses held by Slater & Gordon in our assessment of fairness given the difficulty typically experienced by potential purchasers in satisfying the tests which allow them to utilise the tax losses held by acquired businesses and the uncertainty as to the specific utilisation profile applicable to potential purchasers. More often than not, potential acquirers do not attribute material value to tax losses even though they may have value for the existing shareholders.

4.4 Implications if the Recapitalisation is not approved

The Board expects that if the Recapitalisation is not approved or implemented and the financial position of Slater & Gordon remains unchanged, it will likely need to place the Company into external administration by May 2018, which may lead to the appointment of receivers and managers. If the Company was to go into external administration or receivership, the Company may realise value through a range of different insolvency scenarios which could include:

- the Company continuing as a going concern and being sold to third parties (either as a whole or in parts)
- the Company (or parts thereof) being wound down/run off
- some combination of the above.

¹⁰ Watchstone Proceeds refers to the portion of the consideration which is a deferred cash payment of \$40 million and is contingent upon receipt by UK HoldCo or one of its subsidiaries of all or part of the Watchstone Entitlement Amount.

As pointed out in Section 4.2.1 of this report, the Company and its financial advisers have already considered several of these options in relation to the capital restructuring, none of which was seen as being superior to the Recapitalisation. Further, should the Company enter into insolvency we do not expect that Shareholders would receive any value for their Shares, given the assets of Slater & Gordon are not sufficient to fully satisfy its current secured debt obligations. The consequences of an insolvency on the Senior Lenders are detailed in Section 12.2 of this report.

We note also that if the Recapitalisation is not approved, some of the professional fees related to the Recapitalisation already incurred will be payable even if the Recapitalisation is not approved and will reduce Slater & Gordon's liquidity further. According to the Company, as at the time of this report, the majority of the costs and expenses in relation to the Recapitalisation will have been incurred.

In addition, there would be a risk that Slater & Gordon may not be able to satisfy the ASX that its financial condition is sufficient to permit continued trading of its Shares on the ASX. This may result in its shares being suspended from trading until a revised debt recapitalisation is proposed and implemented.

Further due to the inter-conditionality of the Senior Lender Scheme and the Shareholder Claimant Scheme, the Shareholder Claimant Scheme would not be implemented and Slater & Gordon would continue to be exposed to ongoing liability and litigation from Shareholder Claimants in relation to the trading in its Shares during the previous six years.

5 Opinion for the Shareholder Claimant Scheme

In our opinion, the Shareholder Claimant Scheme **is in the best interest of the Shareholder Claimants, in the absence of a superior proposal.**

In arriving at this opinion, we have assessed whether the Shareholder Claimant Scheme is:

- *fair*, by considering the financial position of the Shareholder Claimants should the Shareholder Claimant Scheme be voted down relative to the financial position of the Shareholder Claimants should the Shareholder Claimant Scheme be approved
- *reasonable*, by assessing for the Shareholder Claimants:
 - implications of the Shareholder Claimant Scheme
 - available alternatives to the Shareholder Claimant Scheme, and
 - the consequences of not approving the Shareholder Claimant Scheme.

The Shareholder Claimant Scheme is to assist with the facilitation of the Recapitalisation by protecting the interest of Slater & Gordon's clients, creditors, current and future Shareholders and other stakeholders having regard to the current financial position of Slater & Gordon. With the approval of the Shareholder Claimant Scheme, the Recapitalisation will be able to proceed which will result in Slater & Gordon reorganising its total secured debt to a sustainable level, as discussed in Section 4 of this report.

In considering fairness, it is important to understand that the maximum amount of damages that are likely to be available should the Shareholder Claimants take their claims to court and receive a favourable ruling, noting the subordinated nature of the claims and irrespective of the damages awarded, would be the indemnity amount available under the relevant insurance policies, which has been estimated at \$40.0 million, less legal and other associated costs for taking the matter to court.

Should the claims be settled as a result of the approval of the Shareholder Claimant Scheme, the gross amount that would form the basis for the distribution to Shareholder Claimants are the monies contributed by the insurance companies of the responsive director and officer insurance policies, which are in the order of \$32.5 million, less legal and other associated costs incurred. We also note that Hall Proceeding Claimants will be entitled to an additional \$4.0 million which will be funded through the drawdown of super senior debt.

Whilst proceeding with litigation appears to potentially result in a financial outcome that is more beneficial to Shareholder Claimants, after accounting for the differing underlying legal and other associated costs and expenses and accounting for the commission payable¹¹ to the Hall Proceeding's litigation funder, the net financial position of the Shareholder Claimants should the Shareholder Claimant Scheme be approved is likely to be greater than the net financial position of the Shareholder Claimants should the Shareholder Claimant Scheme not be approved. As such, we consider that the Shareholder Claimant Scheme is fair.

In forming our opinion as to the reasonableness of the Shareholder Claimant Scheme, we have considered a number of factors relevant to Shareholder Claimants. The principal factors considered in forming the conclusion include:

- the approval of the Shareholder Claimant Scheme is a condition for the Recapitalisation to proceed
- the Shareholder Claimant Scheme is a credible commercial alternative to a lengthy, costly and uncertain litigation
- the Hall Proceeding Claimants, have agreed to support the Shareholder Claimant Scheme, which provides greater certainty that the scheme will be approved
- Shareholder Claimants relinquish their Shareholder Claims against Slater & Gordon and its Officers should the Shareholder Claimant Scheme proceed
- the conditions associated with the Shareholder Claimant Scheme results in Shareholders' claims being extinguished and limited to an entitlement to prove against and share in the Scheme Fund and a reduction in their ability to pursue Shareholder Third Party Claims that are not Permitted Claims.

¹¹ Which may be in the order of 20 percent to 45 percent, based upon rate information considered by the Federal Court of Australia, Access to Justice – Litigation Funding and Group Proceedings Consultation Paper July 2017 and Advanced Issues in Class Action presentation – IMF Bentham 10 March 2016.

In relation to these matters, notwithstanding their subjective nature, we consider the benefits associated with the Shareholder Claimant Scheme to exceed the negatives particularly given the potential adverse effects should the Shareholder Claimant Scheme not be approved.

The principal matters that KPMG Corporate Finance has taken into consideration in forming its opinion that the Shareholder Claimant Scheme is fair and reasonable are summarised in the remainder of Section 5 below.

5.1 The Shareholder Claimant Scheme is fair

Our fairness assessment of the Shareholder Claimant Scheme is based upon the likely net financial position of the Shareholder Claimants assuming the Shareholder Claimant Scheme is not approved, relative to the net financial position of the Shareholder Claimants assuming that the Shareholder Claimant Scheme is approved. We note that where the Shareholder Claimant Scheme is approved, a scheme fund will be established. This is discussed in more detail in Section 13 of this report.

As part of our assessment, we have considered the status of the Shareholder Claims¹² with respect to the Corporations Act, particularly with reference to the definition of a "subordinated claim" and how subordinated claims are treated, with reference to Section 563A (2) and Section 563A (1) of the Corporations Act respectively, and the potential proceeds that are available to subordinated claims, with reference to Section 562 of the Corporations Act. These considerations are discussed in detail in Section 13.3 of this report.

From our analysis, the net proceeds that would be available to the Shareholder Claimants would be related to the indemnity available under relevant responsive director and officer insurance policies, less commissions payable to any litigation funder¹¹ associated with the claim, as well as legal and other associated costs of litigation. Irrespectively, as a consequence of using a litigation funder, the funder would receive the agreed upon commission (which is usually a percentage of the pool awarded to claimants) should the claim settle or is successfully litigated in court.

From discussion with Management, we have been advised that the available proceeds from the relevant insurance policies is estimated to be \$40.0 million, whilst the potential costs for each claim made against the Company may be in the order of 50 cents up to 75 cents of the dollar of the maximum amount of funds available to satisfy the damages awarded, excluding the

¹² Any Claim against the Scheme Company arising from or in connection with any fact, matter, circumstance or event occurring at any time in the 6 year period on or before the Proof Lodgement Date and which arises:

- a) in a person's capacity as:
 - i. a member of the Scheme Company (including as a Shareholder); or
 - ii. a holder or beneficiary (whether directly or indirectly) of any Security or Financial Product in the Company; or
- b) from a person buying, acquiring, holding, selling, transferring, converting or otherwise dealing (whether directly or indirectly) in any Shares, Security or other Financial Product in the Company.

commission payable to the associated litigation funder. Therefore, should the litigation be successful, the net proceeds (excluding the commission payable to the litigation funder) that may be available to Shareholder Claimants, assuming a single claim is made against the Company, may be in the order of \$10.0 million to \$20.0 million.

Should the Shareholder Claimant Scheme be approved, a pool of funds will be established with the benefits of the fund to be distributed amongst Shareholder Claimants that prove their claim. The total funds available to be distributed to all Shareholder Claimants is based upon a \$32.5 million contribution from relevant Slater & Gordon insurers, less legal costs incurred by Maurice Blackburn and the litigation funder's commission (Scheme Fund). From the Scheme Fund, running costs associated with the Shareholder Claimant Scheme will be deducted, which have been estimated to be in the order of \$0.75 million to \$1.25 million. Additionally, \$4.0 million from the New AUD Super Senior Facility will be distributed amongst the Hall Proceeding Claimants as part of the Hall Proceeding Settlement. From discussion with Management it is unlikely that estimated legal costs associated with the claims, should the claims be settled as a result of the approval of the Shareholder Claimant Scheme, would be greater than \$3.0 million. Further, from a copy of the notice of opt out and proposed settlement issued by Maurice Blackburn to its group members on 25 September 2017, the notice states that the applicant intends to ask the Court to approve payment of litigation funding costs of \$8.25 million.

As such, the Shareholder Claimants' net financial position should:

- if the Shareholder Claimant Scheme is approved, result in the Shareholder Claimants collectively receiving the Scheme Fund less scheme running costs of \$0.75 million to \$1.25 million. Additionally, the Hall Proceeding Claimants will receive \$4.0 million (less legal costs and litigation commission payable) to be distributed amongst themselves. Assuming legal costs are in the order of \$3.0 million, litigation funding costs of \$8.25 million and scheme running costs are at the high end of the range at \$1.25 million, funds available to be distributed to Shareholder Claimants are in the order of \$20.0 million, which is payable to Shareholder Claimants upon proof of claim
- if the Shareholder Claimant Scheme is not approved, and assuming that the proceedings against Slater & Gordon continues and are successful, would result in gross damages of up to \$40.0 million. From this pool the litigation funder would receive their commission, and legal and other associated costs, which may be in the order of 50 cents to 75 cents to the dollar of maximum damages payable per claim, would be deducted. Notwithstanding the litigation funders commission, this results in the Shareholder Claimants, assuming a single claim is made, receiving \$10.0 to \$20.0 million at the end of the litigation proceedings should the court rule favourably to the claimant, which may take up to several years. We note that to date, two class action claims are currently on foot against Slater & Gordon, and one potential claim notified, so the recovery may be less than if only one claim had been filed.

Based upon the net financial position of the Shareholder Claimants outlined above, the Shareholder Claimants are likely to be in a financially superior position should the Shareholder

Claimant Scheme be implemented, and as such, in our opinion the Shareholder Claimant Scheme is fair.

5.2 The Shareholder Claimant Scheme is reasonable

An offer is deemed by RG 111 to be "reasonable" if it is fair. However an offer can also be reasonable even if despite not being fair there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.

In this situation, we have detailed the key factors which would need to be taken into consideration when assessing the reasonability of the Shareholder Claimant Scheme.

5.2.1 Key factors

Failure of the Recapitalisation is avoided

The approval of the Shareholder Claimant Scheme is a condition to the Recapitalisation proceeding. We consider the Recapitalisation to be fair and reasonable to Shareholders. As such for those Shareholder Claimants who are also current Shareholders, we consider it also appropriate that they support the Shareholder Claimant Scheme.

The Shareholder Claimant Scheme represents a credible commercial alternative to a potentially lengthy, costly and uncertain litigation

By approving the Shareholder Claimant Scheme, the time required to litigate the claim, the associated costs and the uncertain outcome of the litigation is avoided. Shareholder Claimants benefit from increased certainty with a documented process on how the scheme would work and with a benefit that is defined which will be made available to the Shareholder Claimants upon approval of the Shareholder Claimant Scheme.

A key Shareholder Claimant, the Hall Proceeding Claimants, have agreed to support the Shareholder Claimant Scheme

With the Hall Proceeding Claimants agreeing to support the Shareholder Claimant Scheme, the likelihood of the Shareholder Claimant Scheme proceeding is significantly increased.

The approval of the Shareholder Claimant Scheme would limit future claims Shareholder Claimants may wish to pursue against Third Parties

Whilst Shareholder Claimants will retain the rights to commence claims that they may have against a Third Party¹³ arising out of or in connection with a Shareholder Claim, provided those claims are commenced in the Federal Court of Australia, are apportionable claims by operation of the Proportionate Liability Provisions¹⁴ and Third Parties against whom those claims are commenced do not have a contractual right of indemnity or contribution against Slater & Gordon, by approving the Shareholder Claimant Scheme, Shareholder Claimants relinquish

¹³ any person who is not a Released Person.

¹⁴ As defined in Section 10 of the Shareholder Claimants Explanatory Statement.

their claims against Slater & Gordon and its Officers, provides release to the Released Persons,¹⁵ provide an extensive indemnity to Released Persons and may limit their ability to pursue Shareholder Third Party Claims¹⁶.

5.3 Implications if the Shareholder Claimant Scheme is not approved

In the event the Shareholder Claimant Scheme is not approved, the Shareholder Claimants would proceed with the litigation process. Further, they may still receive monies should the court award the Shareholder Claimants damages. However, as noted in Section 5.1 of this report, the likely financial benefit to the Shareholder Claimants, once legal and other associated costs have been accounted for, is likely to be less than the net financial position of the Shareholder Claimants should the Shareholder Claimant Scheme be approved. We also note that the conclusion of any litigation process may take several years.

Further, on this basis, the Recapitalisation would not proceed as the approval of the Shareholder Claimant Scheme is a condition of the Recapitalisation proceeding. This would likely lead the Board to place the Company into voluntary administration in May 2018, which may lead to the appointment of receivers and managers. The outcome of this situation is discussed in Section 4.4 of this report.

6 Other matters

In forming our opinions, we have considered the interests of Shareholders, the Senior Lenders and the Shareholder Claimants, as a whole, (Securityholders). This advice therefore does not consider the financial situation, objectives or needs of individual Securityholders. It is not practical or possible to assess the implications of either the Recapitalisation or the Shareholder Claimant Scheme on individual Securityholders as their financial circumstances are not known. The decision of Securityholders as to whether or not to approve the Recapitalisation and the Shareholder Claimant Scheme is a matter for individuals based on, amongst other things, their risk profile, liquidity preference, investment strategy and tax position. Individual Securityholders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to vote for or against the proposed resolutions may be influenced by his or her particular circumstances, we recommend that individual Securityholders including residents of foreign jurisdictions seek their own independent professional advice.

Our report has also been prepared in accordance with the relevant provisions of the Corporations Act and other applicable Australian regulatory requirements. This report has been prepared solely for the purpose of assisting Securityholders in considering the Recapitalisation and Shareholder Claimants in considering the Shareholder Claimant Scheme. We do not assume

¹⁵ Released Persons means the company, its related bodies corporate and their related entities and any present and past officers, employee, servant or agent of these entities.

¹⁶ Any Claim against a Third Party arising from, or in connection with, a Shareholder Claim, including Permitted Claims and Claims against Third Party Respondents who may seek contribution or indemnity from the Company.

any responsibility or liability to any other party as a result of reliance on this report for any other purpose.

Neither the whole nor any part of this report or its attachments or any reference thereto may be included in or attached to any document, other than the Notice of Meeting, Explanatory Memorandum, Senior Lenders Explanatory Statement, Shareholder Claimants Explanatory Statement, and scheme documents to be sent to the Securityholders in relation to the Recapitalisation or sent to Shareholder Claimants in relation to the Shareholder Claimant Scheme, without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears. KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it appears in the Notice of Meeting, Explanatory Memorandum, Senior Lenders Explanatory Statement, Shareholder Claimants Explanatory Statement, and other scheme documents.

We released a draft report to Slater & Gordon on 20 July 2017, outlining our valuation, assessment and opinion of the Recapitalisation as at that point in time. We released that draft report to Slater & Gordon at that time to enable it to be provided to ASIC in accordance with the transaction timetable as it existed at the time. Subsequent to the release of our draft report, the structure of the Recapitalisation was amended. Further, new information relating to the Company, its direct competitors and the industry in which it operates was released to the market which impacted upon our assessment of the enterprise value of Slater & Gordon. As such, our valuation and assessment on the Recapitalisation has been updated to reflect the new information, however we note that our overall opinions in relation to the Recapitalisation has not changed from that set out in the draft report released to Slater & Gordon on 20 July 2017.

Our opinions are based solely on information available as at the date of this report as set out in Appendix 2 of the report. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion. We refer readers to the limitations and reliance on information section as set out in Section 8.3 of this report.

All currency amounts in this report are denominated in Australian dollars unless otherwise stated.

The above opinion should be considered in conjunction with, and not independently of, the information set out in the remainder of this report, including the appendices.

Yours faithfully



Ian Jedlin
Authorised Representative



Joanne Lupton
Authorised Representative

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7 The Recapitalisation and Shareholder Claimant Scheme

On 29 June 2017, Slater & Gordon announced it had entered into a RSD with its Supporting Lenders to undertake a Recapitalisation. Subsequently on 10 July 2017, the Company entered into a Heads of Agreement in relation to the Hall Proceeding in order to manage claims brought against the Company by Shareholder Claimants in relation to the acquisition of Shares within a certain 6 year time frame so as to facilitate the Recapitalisation. On 21 September 2017, a binding settlement deed in relation to the Hall Proceeding was announced. The Company will seek to implement the Hall Proceeding Settlement via a creditor's scheme of arrangement between Slater & Gordon and its Shareholder Claimants.

Further to its announcement on 29 June 2017, Slater & Gordon advised on 31 August 2017 that it has entered into an amended binding RSD with 100 percent of its Senior Lenders in relation to the Recapitalisation. The revised terms of the Recapitalisation will provide the Company with the additional liquidity support required for its continued operation prior to the implementation of the Recapitalisation and to fund the business plan thereafter. It will also deliver the substantial debt reduction that was a feature of the original RSD.

The key terms of the Recapitalisation involves the following:

- *Working Capital Facility:* The Senior Lenders have committed to increase the Company's existing \$40 million working capital facility as announced on 5 May 2017 by the Super Senior Incremental Facilities. The additional funding will be available for drawdown prior to and following the Recapitalisation. The additional funding will comprise the Super Senior AUD Incremental Facility and the Super Senior GBP Incremental Facility. The Super Senior Incremental Facilities will be used for general corporate purposes, including one-off costs incurred in connection with the Recapitalisation and working capital support as the business pursues its turnaround plan.
- *Separation of the United Kingdom (UK) Operations:* On implementation of the Senior Lender Scheme, all UK operations and UK subsidiaries will be separated from the Company and transferred to UK HoldCo. UK HoldCo will be wholly owned by the Senior Lenders. Following separation, existing shareholders of the Company will cease to have any interest in the Company's existing UK operations or UK subsidiaries. The Shareholders will retain the opportunity to participate in future value associated with the Australian business only. As a result of this, the Super Senior Secured Facilities will be separated into a \$65 million AUD denominated facility with the Company for the Australian business and a GBP denominated facility (with an aggregate principal amount equal to the commitments made available under the Super Senior GBP Incremental Facility) with S&G UK for the UK business. These replacement facilities are to be entered into on implementation of the Recapitalisation.

- *Watchstone¹⁷ Entitlement Amount:* As partial consideration for the transfer of S&G UK shares from the Company to UK HoldCo, the Company will have recourse to the first \$40 million of any proceeds that S&G UK receives from Watchstone-related claims. These proceeds will be applied first to reduction of the Company's New AUD Super Senior Facility.
- *Issue of shares in the Company to Senior Lenders:* On implementation of the Senior Lender Scheme, Senior Lenders will be issued with approximately 95 percent of the equity in the Company. The existing Shareholders will hold approximately 5 percent of the Company post the Recapitalisation. The number of shares to be issued to each Senior Lender will depend on their commitments in respect of the Super Senior AUD Incremental Facility and the New AUD Super Senior Facility.
- *Debt Facilities (Australia):* Outstanding secured debt will be permanently reduced by a combination of releasing, refinancing and restating debt. The senior debt facilities of the Company immediately following implementation of the Recapitalisation will be as follows:
 - New AUD Super Senior Facility (\$65 million): The facility will have a three year term and will be used to refinance the AUD-denominated amounts owing under the existing super senior facility and for working capital purposes
 - Restated Facilities (\$60 million): \$60 million of senior secured debt under the Company's existing SFA following implementation of the Recapitalisation will be refinanced on substantially the same terms but amended with a five year term with PIK interest accrued but not payable until the facility has been repaid, amongst other changes.
- *Debt Facilities (UK):* In respect of the UK operations (which will be owned 100 percent by the Senior Lenders following implementation of the Recapitalisation), S&G UK's debt facilities on implementation of the Recapitalisation will be as follows:
 - New GBP Super Senior Facility (\$25 million): Aggregated principal amount equal to the commitments made available under the Super Senior GBP Incremental Facility. This facility will be denominated in GBP, will have a three year term and will be used for working capital purposes.
 - Convertible Notes (£250 million): S&G UK will issue interest-free convertible notes to the Senior Lenders. The convertible notes will entitle the holders to payment of any amounts, up to £250 million, received by S&G UK in respect of the net proceeds of Watchstone-related claims above \$40 million and certain net proceeds of any asset divestments and insurance proceeds received in respect of the UK operations.

¹⁷ Watchstone plc, formerly Quindell plc.

The Recapitalisation is intended to provide the Company with a sustainable level of senior secured debt and a stable platform for its future operations in Australia and provide sufficient financial flexibility for the Company's strategic or operational initiatives.

The Recapitalisation will be implemented via a Senior Lender Scheme. We also note that in conjunction with the Recapitalisation, the Shareholders will consider a 100-1 share consolidation.

In relation to the Shareholder Claimant Scheme, a Scheme Fund of \$32.5 million (funded by Slater & Gordon's insurers), less legal and associated costs, will be distributed to Shareholder Claimants. An additional \$4.0 million, sourced from the New AUD Super Senior Facility, will be distributed amongst the Hall Proceeding Claimants as per the Hall Proceeding Settlement Deed.

Under the RSD, the Board has agreed to undertake a board renewal process which will enable the Senior Lenders, who will own approximately 95 percent of the Company's equity on implementation of the Recapitalisation, to elect new Directors. All existing Directors will resign in due course as new Directors are appointed.

Following the Recapitalisation, the Board will comprise seven Directors. Anchorage will be entitled to nominate four non-executive Directors, other members of the Majority Supporting Lenders (excluding Anchorage) will be entitled to nominate two non-executive Directors, and the Majority Supporting Lenders together (including Anchorage) will be entitled to nominate the other Director.

In addition, under the RSD, a new management incentive plan in respect of the Australian business (on terms to be developed) will be implemented with the intention that it will allow for the economic equivalent of up to 10 percent of the Company's fully diluted share capital to be available to beneficiaries of the plan over time. The proposed beneficiaries are employees of the Company and its various subsidiaries (Post-Recapitalisation) who contribute to its future success.

The Company and each of its subsidiaries has committed to not exercise any board discretion to vest any incentive rights or options granted to Directors, Management or senior executives in anticipation of any potential change of control pursuant to the Recapitalisation.

There are also transfer restrictions as part of the Recapitalisation requiring the Senior Lenders to collectively retain ownership of the equity and debt facilities until, for the Australian equity and debt instruments, the release of the Company's FY19 half results, except that the transfer restrictions relating to the equity in Slater & Gordon will apply to Anchorage until the release of the Company's FY19 full year results.

The Directors have indicated that they unanimously support entry into the RSD and the proposed terms of the Recapitalisation. The Directors unanimously recommend that the Senior Lenders and Shareholders vote in favour of all resolutions required to approve the Recapitalisation and that each Director intends to vote all Shares held or controlled by them in favour of the Recapitalisation in the absence of a superior proposal, subject to the independent expert concluding that the Company will be solvent immediately following implementation of

the Recapitalisation and also concluding that the Recapitalisation is ‘fair and reasonable’ or ‘not fair but reasonable’ to Shareholders.

The impact of the Recapitalisation on Slater & Gordon’s statement of financial position is discussed in further detail in Section 10 of this report.

7.1 Conditions

The Recapitalisation is subject to a number of conditions which are set out in full in the Explanatory Memorandum (Section 5.7) and in the Senior Lenders Explanatory Statement (Section 7). The key conditions of the Recapitalisation are:

- the Senior Lender Scheme and Shareholder Claimant Scheme are approved at the scheme meetings by the requisite majorities
- Shareholders approve the required resolutions at the Annual General Meeting by the requisite majorities
- court approval of the Senior Lender Scheme, the Shareholder Claimant Scheme¹⁸ and the Hall Proceeding Settlement
- the Company obtaining all other relevant regulatory approvals, authorisations, consents or waivers, including from ASX and ASIC
- the Senior Lenders obtaining Foreign Investment Review Board (FIRB) approval
- each party to a ‘Business Separation and Transitional Arrangements Agreement’ in respect of the separation of the S&G Group’s Australian and UK operations (in a form to be agreed between the Company and the Senior Lenders) has duly executed their counterpart, each of which is to be held in escrow and released in accordance with the terms of the Senior Lenders Scheme
- the Company has received cash proceeds in relation to project litigation matters substantially in accordance with budgeted quantum and timing in the period between the date of the RSD and the scheme meeting for the Senior Lender Scheme
- the condition will be satisfied upon written notice from the Supporting Lenders that the tax opinion received by the Company is reasonably acceptable to the Supporting Lenders
- all material authorisations required to complete the Recapitalisation have been granted or obtained and have not been withdrawn, cancelled or revoked
- there are no legal or regulatory restraint that prohibits, materially restricts, makes illegal or restrains the implementation of the Senior Lender Scheme

¹⁸ The Shareholder Claimant Scheme’s purpose is to extinguish all Shareholder Claims (including those currently filed, or proposed to be filed, against the Company). The Senior Lender Scheme and the Shareholder Claimant Scheme are inter-conditional.

- the Company has obtained the consent from each person who is entitled to exercise any right under any provision of material contract that entitles the person to terminate or modify the contract as a result of the Recapitalisation and in respect of which the Majority Supporting Lenders require the Company to seek such consent
- deeds poll entered into by certain third parties continue to benefit the beneficiaries named in those deed polls and those deeds poll have not been terminated.

We note the full conditions precedent and other necessary steps for the Senior Lender Scheme are set out in the Senior Lenders Explanatory Statement (Section 3 and Section 7 respectively).

The RSD also contains customary exclusivity provisions including no shop, no talk and no due diligence restrictions, a notification obligation, termination of any discussions with any third party, and a matching right, subject to the Directors' fiduciary obligations and debt standstill provisions.

The RSD can also be terminated by either the Company or the Majority Supporting Lenders in the event that a condition precedent becomes incapable of being satisfied by 31 December 2017, or if the parties are not able to reach agreement on how to proceed with the Recapitalisation following a period of consultation.

The conditions precedent of the Shareholder Claimant Scheme are detailed in Section 6.2 of the Shareholder Claimants Explanatory Statement and include:

- the Shareholder Claimant Scheme being approved by the requisite majority
- all the necessary Court approvals are obtained for the Senior Lender Scheme, Shareholder Claimant Scheme and the Hall Proceeding Settlement
- the satisfaction or waiver of any conditions made or required by the Hall Proceeding Settlement Deed in respect of the Hall Proceeding Settlement
- any other conditions made or required by the Court under Section 411(6) of the Corporations Act in relation to the Shareholder Claimant Scheme have been satisfied
- the Shareholder Claimant Scheme becomes Effective.¹⁹

¹⁹ Effective means, the coming into effect, pursuant to Section 411 (10) of the Corporations Act, of the Second Court Orders.

8 Scope of the report

8.1 Purpose

As mentioned in Section 2 of this report, Slater & Gordon requires an IER pursuant to Section 411 of the Corporations Act.

Section 411 of the Corporations Act

The Directors have requested KPMG Corporate Finance to prepare a report in accordance with Section 411 of the Corporations Act and the guidance provided by ASIC.

Section 411(3) of the Corporations Act requires that an explanatory statement issued in relation to a proposed scheme of arrangement under Section 411 of the Corporations Act include information that is material to the making of a decision by a creditor or member as to whether or not to agree with the relevant proposal.

8.2 Basis of assessment

Requirement under Section 411 of the Act

Part 3 of Schedule 8 to the Corporations Regulations 2001 (Cth) (Corporations Regulations) specifies that the information to be lodged with ASIC must include a report prepared by an expert:

- if the other party to a reconstruction in a scheme of arrangement holds at least 30 percent of the company; or
- where the parties to the reconstruction have common directors.

The report prepared by the expert must state whether, in the expert's opinion, the proposed scheme of arrangement is in the best interests of the members of the body as a whole and set out the expert's reason(s) for forming that opinion.

Even where an independent expert's report is not strictly required by the law, it is not uncommon for directors to commission one to ensure they are providing the information that is material to the making of a decision by a creditor or member.

This report is to be included in the:

- explanatory statement to be sent to the Senior Lenders and has been prepared for the purpose of assisting the Senior Lenders in their consideration of the Senior Lender Scheme
- explanatory statement to be sent to Shareholder Claimants and has been prepared for the purpose of assisting the Shareholder Claimants in their consideration of the Shareholder Claimants Scheme.

In undertaking our work, we have referred to RG 111 which indicates the principles and matters which it expects a person preparing an IER to consider. The analysis considers whether the transaction is "fair and reasonable" and, as such, incorporates issues as to value. In particular:

- ‘fair and reasonable’ is not regarded as a compound phrase
- an offer is ‘fair’ if the value of the offer price or consideration is equal to or greater than the value of the securities subject to the offer
- an offer is ‘reasonable’ if it is ‘fair’
- an offer might also be ‘reasonable’ if, despite being ‘not fair’, the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.

RG 111 provides that an offer is fair if the value of the consideration is equal to or greater than the value of the shares subject to the offer. It is a requirement of RG 111 that the comparison be made assuming 100 percent ownership of the ‘target’, irrespective of whether the consideration is scrip or cash and without regard to the percentage holding of the bidder or its associates in the target prior to the bid. That is, RG 111 requires the value of the target to be assessed as if the bidder was acquiring 100 percent of the issued equity (i.e. on a controlling interest basis). In addition to the points noted above, RG 111 notes that the weight of judicial authority is that an expert should not reflect ‘special value’ that might accrue to the acquirer.

Accordingly, when assessing the full underlying value of Slater & Gordon, we have considered those synergies and benefits which would be available to more than one potential purchaser (or a pool of potential purchasers) of Slater & Gordon. As such, we have not included the value of special benefits that may be unique to the bidder. Accordingly, our valuation of Slater & Gordon has been determined without regard to the specific bidder, and any special benefits have been considered separately.

Reasonableness involves an analysis of other factors that shareholders might consider prior to accepting an offer, such as:

- the bidder’s pre-existing shareholding in the target
- other significant shareholdings in the target
- the liquidity of the market in the target’s shares
- any special value of the target to the bidder
- the likely market price of the target’s shares in the absence of the offer
- the likelihood of an alternative offer being made
- any other advantages, disadvantages and risks associated with accepting the offer.

In forming our opinion, we have considered the interests of Shareholders as a whole. As an individual Shareholder’s decision to vote for or against the proposed resolutions may be influenced by their particular circumstances, we recommend each Shareholder consult their own financial advisor.

8.3 Limitations and reliance on information

In preparing this report and arriving at our opinion, we have considered the information detailed in Appendix 2 of this report. In forming our opinion, we have relied upon the truth, accuracy and completeness of any information provided or made available to us without independently verifying it. Nothing in this report should be taken to imply that KPMG Corporate Finance has in any way carried out an audit of the books of account or other records of Slater & Gordon for the purposes of this report.

Further, we note that an important part of the information base used in forming our opinion is comprised of the opinions and judgements of Management. In addition, we have also had discussions with Management in relation to the nature of Slater & Gordon's business operations, their specific risks and opportunities, their historical results and prospects for the foreseeable future. This type of information has been evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Slater & Gordon has been responsible for ensuring that information provided by it or its representatives is not false, misleading or incomplete. Complete information is deemed to be information which at the time of completing this report should have been made available to KPMG Corporate Finance and would have reasonably been expected to have been made available to KPMG Corporate Finance to enable us to form our opinion.

We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

The information provided to KPMG Corporate Finance included forecasts/projections and other statements and assumptions about future matters (forward-looking financial information) prepared by Management. Whilst KPMG Corporate Finance has relied upon this forward-looking financial information in preparing this report, Slater & Gordon remains responsible for all aspects of this forward-looking financial information. The forecasts and projections as supplied to us are based upon assumptions about events and circumstances which have not yet transpired. We have not tested individual assumptions or attempted to substantiate the veracity or integrity of such assumptions in relation to any forward-looking financial information, however, we have made sufficient enquiries to satisfy ourselves that such information has been prepared on a reasonable basis.

Notwithstanding the above, KPMG Corporate Finance cannot provide any assurance that the forward-looking financial information will be representative of the results which will actually be achieved during the forecast period. Any variations in the forward looking financial information may affect our valuation and opinion.

The Directors are responsible for conducting due diligence in relation to the Group. KPMG Corporate Finance provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process, which is outside our control and beyond the scope of this report. We

have assumed that the due diligence process has been and is being conducted in an adequate and appropriate manner.

The opinion of KPMG Corporate Finance is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our opinion. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion.

8.4 Disclosure of information

In preparing this report, KPMG Corporate Finance has had access to all financial information considered necessary in order to provide the required opinion. Slater & Gordon has requested KPMG Corporate Finance limit the disclosure of some commercially sensitive information relating to forward looking financial information. This request has been made on the basis of the commercially sensitive and confidential nature of the forward looking financial information of Slater & Gordon. As such the information in this report has substantively been limited to the type of information that is regularly placed into the public domain by Slater & Gordon.

9 Profile of Slater & Gordon

9.1 Background

Slater & Gordon was founded in Victoria, Australia in 1935 by Bill Slater and Hugh Gordon, with the objective of servicing the legal needs of unions and their members. It focussed on workers compensation and developing its industrial and employment law practice, and was later involved in a number of landmark cases. A summary of Slater & Gordon's history to date is discussed below, with key events detailed in Appendix 3.

Australian growth

Slater & Gordon began to expand nationally, opening offices in Perth in 1985 and Sydney in 1986.

As a result of changes in law practice ownership laws, Slater & Gordon was incorporated in 2001 and increased its national presence by opening offices in Queensland and the Australian Capital Territory (ACT) in 2003, Adelaide in 2007 and Hobart in 2009.

In the two years leading up to Slater & Gordon's listing it completed five transactions to expand operations in New South Wales (NSW) and the ACT. The acquired firms predominantly practiced Personal Injury (PI) law, but also presented an opportunity to extend Slater & Gordon's service offering in General Law (GL). In 2007, Slater & Gordon listed on the ASX, with 17 offices across Australia, operating in all capital cities with the exception of Hobart and Darwin.

The purpose of listing was to provide existing shareholders an exit opportunity, to pay down existing debt facilities and to position Slater & Gordon to continue its proposed growth strategy, including consolidating the PI market through acquisitions. At the time, the PI market presented an opportunity for consolidation as:

- most states liberalised law firm ownership legislation in the period between 2001 and 2006
- the market was highly fragmented with no dominant players
- the industry exhibited characteristics that would provide opportunities to generate economies of scale.

In the years following listing, Slater & Gordon continued consolidating the PI market, completing another 24 material transactions, predominantly Australian based practices focussed on PI, as highlighted in Appendix 3. In 2011, the UK liberalised law firm ownership, presenting Slater & Gordon an opportunity to expand globally. At the time, the UK's PI market displayed similar characteristics as the Australian market did in the mid-2000s, which encouraged Slater & Gordon's expansion into the UK.

Expansion into the UK

The expansion into the UK was announced on 30 January 2012 with the acquisition of Russell, Jones and Walker (RJW) for total consideration of £53.8 million, which comprised cash (£36.4 million debt funded) and scrip (£17.4 million). As a result, Slater & Gordon's debt facilities

increased from \$89 million to \$160 million to cover the transaction and provide additional capacity for future growth. The deal provided Slater & Gordon with a partner that had origins in the UK dating back to the 1920s.

On 30 March 2015, Slater & Gordon announced its largest transaction to date, the acquisition of Quindell Plc's (Quindell) Professional Services Division (PSD) for upfront cash consideration of £637 million and an earn-out based upon the performance of PSD's legacy NIHL²⁰ case portfolio. At the time of the announcement, Quindell, a listed entity on the UK's Alternative Investment Market (AIM) stock exchange, had been subject to investor queries primarily related to its accounting practices, which saw its share price fall 78 percent from a peak of £66.00 as at 19 February 2014. Despite this, the deal was viewed as an opportunity to acquire a business with established routes to market via Claims Management Companies (CMCs) and relationships with insurers and insurance brokers. During the course of due diligence, Slater & Gordon became interested in ancillary business units within Quindell which had the potential to introduce and provide personal injury clients with complementary service offerings. The deal was funded through an \$890 million capital raising and \$375 million of fully underwritten bank debt.

Financial distress

Shortly after completing the PSD acquisition, Slater & Gordon's share price came under market pressure as ASIC opened an investigation into its FY14 and FY15 financial statements and the Financial Conduct Authority in the UK opened an investigation into Quindell in relation to public statements made regarding Quindell's FY13 and FY14 financial accounts. The Serious Fraud Office launched a criminal investigation into Quindell in August 2015. Market pressure increased as the British Chancellor announced proposed small claims reforms in November 2015. As a result of the underperformance of the UK business, Management withdrew FY16 forecast guidance in December 2015. Further detail on the proposed small claims reforms is provided in Appendix 4.

During 2016, Slater & Gordon commenced an operational restructure and turnaround strategies to improve profitability and cash performance. Despite this, the business struggled to meet its debt obligations and began negotiating with lenders to amend its debt facilities and recapitalise the business.

On 13 October 2016, after an approximate 90 percent share price decline between 30 March 2015 and 24 February 2016, Slater & Gordon was served with a shareholder class action. Maurice Blackburn, acting for the class, sought compensation for Shareholders who purchased Shares during this period, claiming there was inadequate due diligence in relation to the PSD acquisition, inadequate risk disclosure and the lowering of earnings and revenue guidance weeks after Management had reaffirmed them (the Hall Proceeding). Subsequent to this, on 24 May 2017, Slater & Gordon announced that it was served with an application to the Federal Court issued on behalf of Mr Delaney by his solicitor ACA Lawyers (the Delaney Application).

²⁰ Noise Induced Hearing Loss claims.

The Delaney Application sought orders from the Federal Court that Mr Delaney and his advisors be provided with notice of steps taken in the court ordered mediation of the Hall Proceeding. The applicants covered by the Delaney Application were considering bringing claims against Slater & Gordon on a basis similar, but not identical, to the claims which were the subject of the Hall Proceeding.

On 20 June 2017, Slater & Gordon was served with a separate class action. Johnson Winter & Slattery Lawyers, acting for the class, sought compensation for shareholders who purchase shares between 24 August 2012 and 19 November 2015 (the Babsday Proceeding). The statement of claim asserts that Slater & Gordon's financial statements for the financial years ended 30 June 2013, 2014 and 2015 contained false and/or misleading statements, allegations Slater & Gordon vigorously denies.

On 29 June 2017, Slater & Gordon announced, in addition to the binding RSD it had entered into with its lenders, that the Slater & Gordon Board had agreed to undertake a board renewal process in due course as a result of the Recapitalisation. Andrew Grech would step down from his position as Group Managing Director effective immediately, whilst remaining a Non-Executive Director over the short term and that Hayden Stephens and Ken Fowlie would continue to lead the Australian and UK businesses respectively, with all Slater & Gordon group functions to now report through to Hayden Stephens.

On 11 July 2017 Slater & Gordon announced an in principle conditional settlement of the Hall Proceeding and related shareholder claims, through a mediation process facilitated by the Federal Court. The conditional in principle settlement will also resolve any and all potential Shareholder Claims (as noted above) against the Company and its Directors and Officers. The Hall Proceeding, and other claims against Slater & Gordon, will be addressed by the Shareholder Claimant Scheme.

More recently, on 31 August 2017 Slater & Gordon announced it intended, through the Recapitalisation, to separate the Australian and the UK operations, which would result in the Group Financial Officer role no longer existing. On 21 September 2017, Slater & Gordon announced it had appointed Ms Belinda Nucifora as Slater & Gordon's Chief Financial Officer, who will commence with the Company on 2 October 2017. Further, on the same day, the Company announced that they had entered into a binding agreement to settle the Hall Proceeding.

Today, Slater & Gordon continues with the integration of PSD into the UK operations, its operational restructure, turnaround strategies and recapitalisation of the business.

9.2 Strategy

Slater & Gordon's objective is to provide people with easier access to legal services at a reasonable cost by consolidating segments of the legal market that can be highly systemised, to create economies of scale, while still providing highly specialised services. Slater & Gordon has entered and expanded into these market segments through a combination of acquisition and organic growth.

In recent years, Slater & Gordon acquired a large number of firms in order to generate scale within the Personal Injury Law (PIL) market. It also completed acquisitions of GL practices and expanded geographically, both within Australia and into the UK, in order to diversify its revenue base.

Slater & Gordon's new business generation does not depend on the delivery of material numbers of clients in any one practice group or service line by key people. Whilst people are critically important to service delivery, which in itself underpins the brand's strength, the Company is generally not dependent on individual lawyers to deliver ongoing new clients although there are practice areas where key relationship managers are important, such as the Australian union services and industrial law practice. Slater & Gordon goes to market via the following channels:

- direct to consumer marketing
- relationship management and business development
- claims management companies and insurers and insurance brokers.

As such, the development and maintenance of Slater & Gordon's brand in the marketplace is key to its success.

The recent financial distress of Slater & Gordon has resulted in Management reconsidering its immediate strategic objectives. Currently it is seeking to:

- restore earnings and cash flow through operational effectiveness and cost out initiatives in the Australian business
- continue to improve the UK's business operations through the execution of the company's turnaround strategy in the UK, which includes:
 - streamlining the organisational design and operation
 - rationalisation of marketing and new business investment
 - the enhancement of process and systems
 - maintaining communications and employee engagement throughout this process.

9.3 Business operations

Slater & Gordon's headquarters are in Melbourne, Victoria. As at 30 June 2017, Slater & Gordon employed 4,210 staff in 71 office locations (not accounting for the impact of redundancies between 30 June 2017 and the Scheme implementation). It specialises in PIL and GL services and also offers a range of complementary services in the UK.

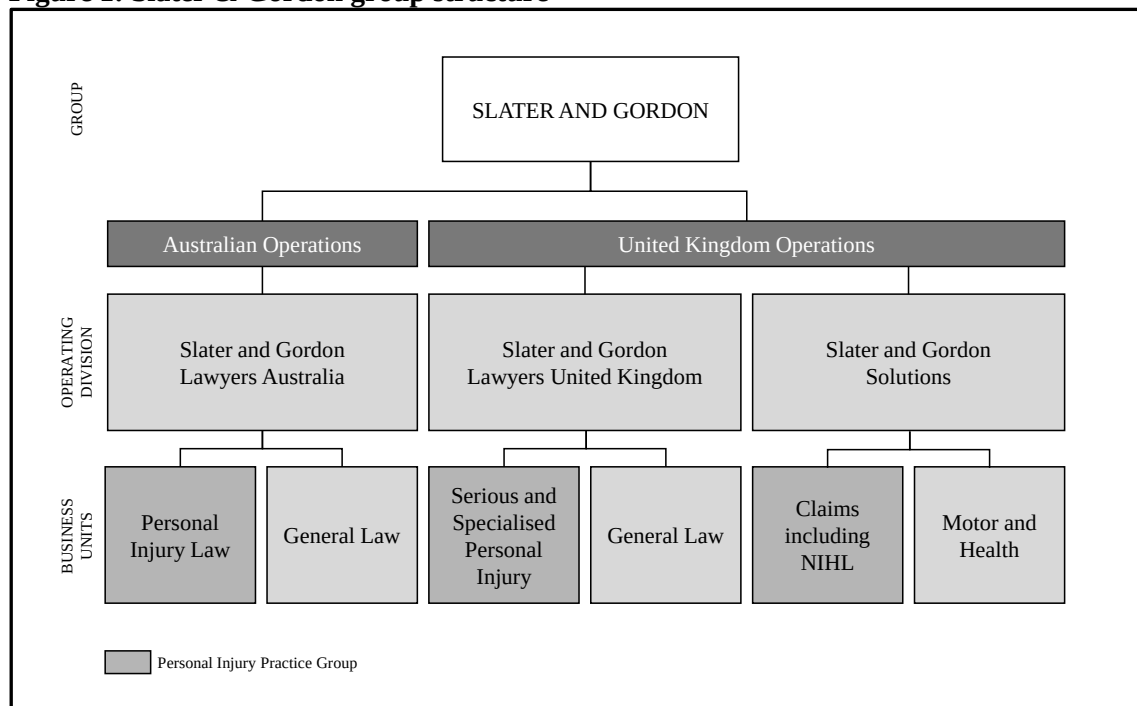
Slater & Gordon's operations are divided into the following operating divisions:

- Slater & Gordon Lawyers – Australia (SGL-A)
- Slater & Gordon Lawyers – United Kingdom (SGL-UK)

- Slater Gordon Solutions (SGS).

The group structure, with its various operating divisions and business units is depicted in the figure below.

Figure 1: Slater & Gordon group structure



Source: Slater & Gordon Management.

Slater & Gordon manages each operating division independently, which is discussed further in Sections 9.3.1 to 9.3.4.

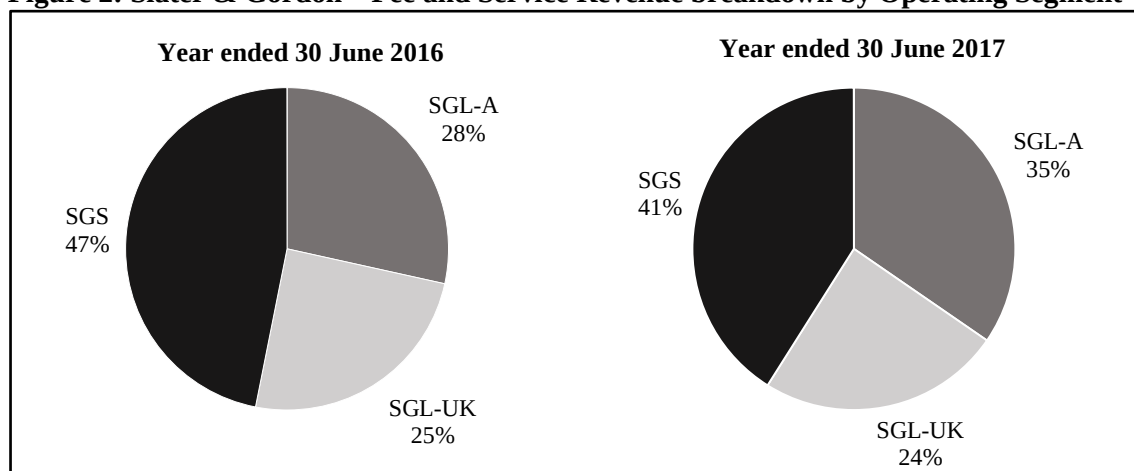
As at 30 June 2017, there were 51 Australian and 20 UK office locations respectively. The majority of Slater & Gordon's Australian offices are located on the east coast. A significant proportion of the UK offices are based in Northern England, located in cities and towns including Manchester, Liverpool, Blackpool and Bolton.

Unlike a typical law firm, staff in Australia are not members of a partnership structure but instead are employees of the Company. In the UK, acquisitions were achieved through a combined structure of members in a limited liability partnership (LLP) and employees in UK subsidiary companies. Slater & Gordon addresses staff retention and alignment of interest through its Long Term Incentive Plan, the Employee Ownership Plan (EOP)²¹ (introduced in 2007) and Employee Incentive Scheme (introduced in 2014).

²¹ Slater & Gordon Employee Ownership Plan (EOP), introduced in 2007 and discontinued in 2017.

Historically, SGL-A was Slater & Gordon's largest operating division by EBITDA. However, recent poor revenue performance has lowered its direct contribution to the group. In addition, as Slater & Gordon expanded into the UK, SGL-A's contribution has reduced significantly, with SGS now Slater & Gordon's largest division by revenue, as shown in the figure below. Despite the revenue contribution, the margin profile (and hence the earnings outcomes) are different. SGL-A is still expected to be the largest contributor of EBITDA in the near term.

Figure 2: Slater & Gordon – Fee and Service Revenue breakdown by Operating Segment



Source: Annual Report 2016, Financial Report 2017.

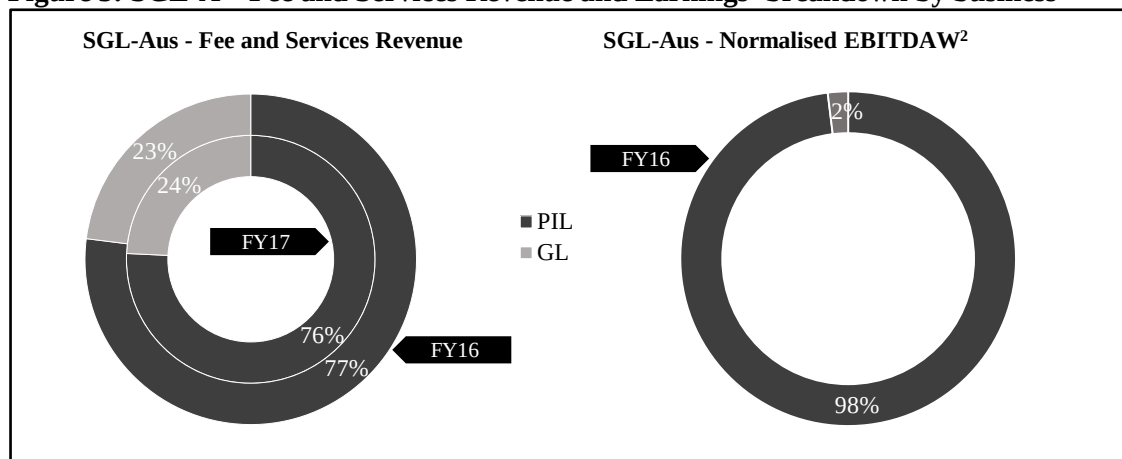
9.3.1 Slater & Gordon Lawyers – Australia

SGL-A is in a unique position as a law firm in Australia with 1,140 staff as at 30 June 2017 (not accounting for the impact of redundancies between 30 June 2017 and Scheme implementation). It offers services across PIL and targeted practice areas in GL. While this is a valuable differentiator and provides revenue diversification, it also adds a layer of complexity and cost to its operations.

SGL-A has traditionally generated revenue focussing on developing the Slater & Gordon brand through direct to consumer marketing whilst developing and maintaining relationships, particularly with mining and construction unions.

A large portion of SGL-A's revenue is generated by PIL, as shown in the figure below, with GL making up the balance. The PIL and GL practice groups are discussed further below.

Figure 3: SGL-A – Fee and Services Revenue and Earnings¹ breakdown by business



Source: Annual Report 2016, Financial Report 2017, Slater & Gordon Management.

Note: 1. Earnings is represented by EBITDAW (earnings before net interest, taxes, depreciation, amortisation, impairment and movement in WIP).

2. Normalised EBITDAW percentage breakdown for FY17 is not meaningful due to GL making a loss.

Personal Injury Law

SGL-A's PIL business has an estimated 20 percent to 25 percent share of the attainable market.²² The PIL business provides specialist legal services to consumers across a number of areas, including:

- transport accidents claims, which predominantly relate to motor vehicle accidents, but also include accidents involving pedestrians or passengers in a bus or a plane
- workers compensation, comprising claims related to industrial accidents and psychological injuries
- civil liability claims, such as adverse medical events, use of product injuries and asbestos claims.

Fees

Since 1994, the majority of PIL work has been conducted on a 'No Win, No Fee' basis (NWNF), whereby the law firm is paid only if the client's case is successful. More specifically, the client only pays when and if they recover damages from a settlement or a favourable ruling.

The NWNF basis facilitates access to the legal system for clients who would otherwise not be able to afford to fund their own legal costs, encouraging lawyers to be selective and diligent in the cases they manage, as the law firm takes on the financial risk of each case, and thus reducing the incentive to take on speculative or meritless cases.

²² Slater & Gordon Strategic Plan. Attainable market takes the total market revenue and assumes 50 percent is attainable by exclusively plaintiff law firms with the balance being defendant personal injury work.

Fees typically include a combination of a normal fee and in some jurisdictions an uplift success fee. Normal fees are calculated on the basis of either a scale of fees, hourly rates, court scales or a legislated fixed fee, based on an estimated range of fees disclosed to clients at the outset of their engagement. These fees may be varied from time to time during an engagement. The success fee is typically a percentage added to the normal fees. Fees charged to the client are subject to the regulation of each jurisdiction, for example, in Victoria, success fees calculated as a percentage of total legal fees are capped at 25 percent.

Work in Progress Revenue drivers

PIL Work In Progress (WIP) revenue is recognised on a percentage of completion basis and is therefore driven by the:

- number of cases, which itself is a function of the number of enquiries and the conversion rate. Factors affecting demand for cases is discussed further in Appendix 4
- average fee per case file, which depends on the situation and type of claim
- case resolution profile, which is the time a case takes to settle or receive a positive verdict, which, in turn, depends on the complexity of the case and the firm's experience in dealing with the matter area
- dilution rate, which is the amount of cases that do not have a successful outcome, which is partly dependent on the company's triage and case selection process.

WIP revenue converts into fee revenue upon the resolution of a case.

Cash flow

A key consequence of the NWNF structure and recognising revenue on a stage of completion basis is that there can be a significant delay between PIL revenue recognition and realisation of cash. In addition, significant working capital including disbursements is invested over the lifecycle of the PIL case portfolio before cash is realised. This is discussed further in Sections 9.5 to 9.6.

General Law

GL cases, as opposed to PIL cases, are typically conducted on a fee for service basis, with reference to agreed hourly rates or agreed fixed fees, although some work, such as certain class actions, estate litigation cases and some family law cases, are conducted on a NWNF basis.

SGL-A's GL business operates two practice groups:

- Personal Legal Services (PLS), and
- Business Litigation Services (BLS).

The key revenue drivers for PLS and BLS are:

- demand for service, which for PLS tends to be less correlated to the macroeconomic cycle than for corporate legal services. Demand for PLS is itself a function of population growth, death rates and divorce rates. This is discussed further in Appendix 2

- brand, which drives client enquiries. However, there is a greater focus on business development and referral relationships in GL than in PIL
- staff mix and retention, so that the firm has the capability and capacity to meet demand. Retaining key personnel is critical as the majority of revenue is earned through work performed and hours billed by fee earners.

SGL-A's GL practices are at different stages of maturity and operate in different markets, which are often fragmented and localised.

Personal Legal Services

PLS is a broad category which involves a number of practice areas that are not highly related to each other but are consumer orientated. PLS includes family law, estate planning, probate, wills, estate litigation and criminal law. Family law has been the major driver of growth within PLS, with estate litigation and crime performing strongly.

Business Litigation Services

BLS has been a strong contributor to top line growth in recent years. BLS includes commercial litigation, commercial property, industrial law and Project Litigation.

With the exception of Project Litigation cases, BLS's main clients are unions and small to mid-size businesses. Revenue is typically generated on a fee for service basis.

Project Litigation cases can be undertaken on either a fully or a partially funded basis or a NWNF basis. In funded cases, third party funders provide all or a portion of the fees receivable on a case (which results in Slater & Gordon taking a portion of the risk on its balance sheet in relation to the unfunded portion). The funded portion of a case is billed frequently for services performed to date and does not rely on the successful outcome of the case. Unfunded fees are variable and contingent upon a successful case outcome.

9.3.2 Slater & Gordon UK

Slater & Gordon operates in the UK as Slater & Gordon Lawyers (SGL-UK) and Slater & Gordon Solutions (SGS). As at 30 June 2017, the UK business employed 3,070 staff across 20 locations (not accounting for the impact of redundancies between 30 June 2017 and the Scheme implementation).

9.3.3 Slater & Gordon Lawyers – UK

SGL-UK holds a regulatory licence issued by the Solicitor's Regulation Authority (SRA) allowing it to practice law in the UK as an incorporated entity with non-lawyer ownership.

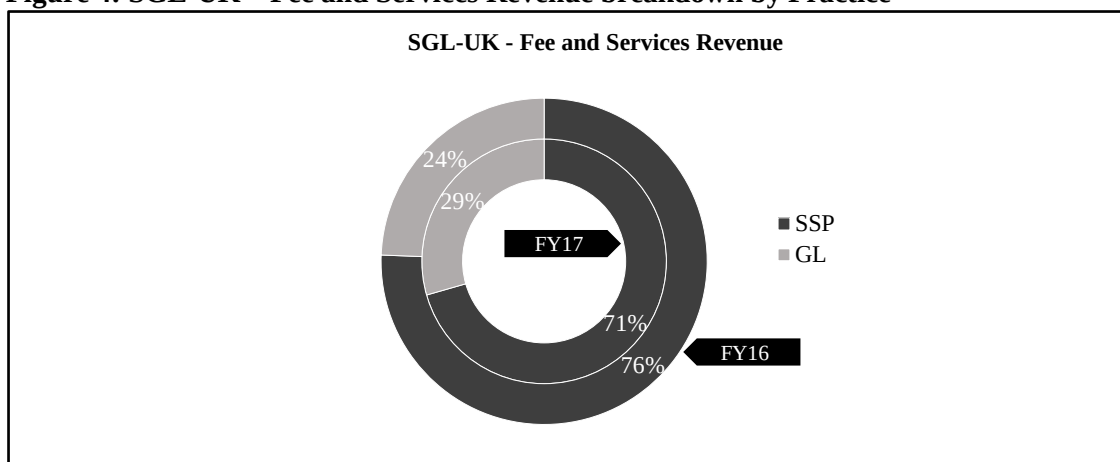
SGL-UK utilises direct to consumer marketing and relationship management/business development to generate revenue.

SGL-UK operates two business groups:²³

- Serious & Specialised Personal Injury (SSP)
- GL.

Similar to SGL-A, the majority of SGL-UK's revenue is generated through its PI practice, SSP, as shown in the figure below,²⁴ with GL making up the balance. Both practices are discussed further below.

Figure 4: SGL-UK – Fee and Services Revenue breakdown by Practice



Source: Annual Report 2016, Financial Report 2017

Note: Normalised EBITDAW percentage breakdown for FY17 is not meaningful as both divisions produced a loss for the year, whilst in FY16, GL made a loss.

Serious & Specialised Personal Injury

SGL-UK SSP provides personal injury legal services. It focusses on consumer claims relating to road traffic accidents, accidents at work and in public places, industrial disease, clinical negligence, accidents abroad, abuse law and related services in Court of Protection work. In SGL-UK, PI matters are assigned to either fast track or multi track depending on the value and complexity of the claim. The track determines the procedure required to follow through the courts, the fee structure (fixed fees, hourly rates and/or cost budget) and by which judge it might be heard. The track also determines the court procedure to be followed and provides for various case management decisions to be made. As part of a recent operational restructuring, SGL-UK now refers fast track cases within road traffic accident and employers'/public/occupiers' liability claims to SGS. SGL-UK retains its multi track cases in those practice areas, together with multi track and fast track cases in other specialist PI areas.

²³ SGL-UK also has a financial planning practice, Adroit Financial Services, which is not a material contributor to operating division revenue or earnings.

²⁴ A breakdown of SGL-UK's EBITDA by practice is not presented as it not meaningful due to SSP making a loss in 1HY17 and GL making a loss in 1HY17 and FY16.

Similar to the SGL-A PIL practice, most SSP work is undertaken on a NWNF basis, with key revenue drivers being number of cases and related demand factors, average fee per file, case resolution profile, and the dilution rate. A key focus of the business over the past few years has been to improve the mix of multi-track claims and move away from small claims to improve its average fee per file. Trends related to the key drivers are discussed in greater detail in Appendix 4.

General Law

The SGL-UK GL business operates across two practice groups:

- PLS
- Group Litigation.

Personal Legal Services

The PLS practice offers employment, family law,²⁵ residential property and estate law services. This work is typically divided into two categories:

- non-contentious and non-complex work
- contentious, tailored and complex work.

Non-contentious and non-complex work

These services lines are price sensitive with the work subject to high levels of process and systemisation. Service lines in this area include uncontested divorce, residential property, wills, powers of attorney and road traffic defence. This type of work tends to have fixed fee arrangements and is increasingly facing competitive pressure from automation, as discussed in Appendix 4.

Contentious, tailored and complex work

These service lines focus on quality of service and therefore the reputation and credibility of the lawyers and the firm is important in winning work. Higher average fees are charged due to the complexity of the work. Cost efficiency is harder to generate through processes, so attention is focussed on winning higher value cases through branding and generating referrals from professional services and lawyer/expert profile led marketing. Examples of this work includes contentious divorce, child custody and guardianship, probate, estate planning, estate litigation, employment law and white collar crime.

²⁵ While it has a relatively small market share, Slater & Gordon is of the view it has the largest family law and claimant employment law practice in the United Kingdom. Source: Annual Report 2016, p. 17.

Group Litigation

SGL-UK's Group Litigation²⁶ practice operates in a similar way to SGL-A's Project Litigation practice and claims. The fee structure for this business service often includes a success fee component.

9.3.4 Slater & Gordon Solutions (SGS)

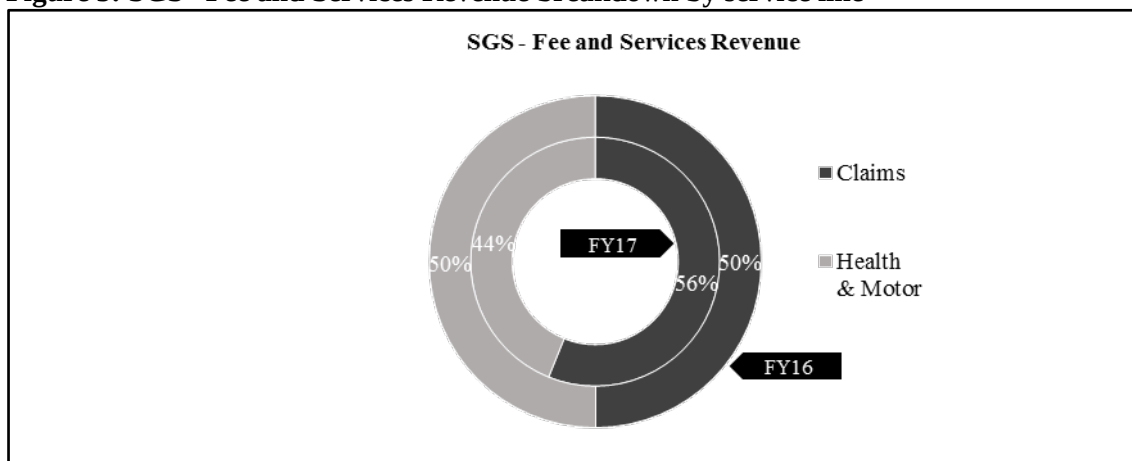
SGS is a collection of businesses that services the needs of clients across the PI claims management value chain. The business was formerly Quindell's PSD business, which was acquired on 29 May 2015 and rebranded as SGS. SGS holds a second SRA licence, through the SGS legal practice.

SGS operates three business groups:

- claims, which includes NIHL claims
- health
- motor.

Both are material contributors to the operating division's revenue, as shown in the diagram below.

Figure 5: SGS– Fee and Services Revenue breakdown by service line



Source: Annual Report 2016, Financial Report 2017, Slater & Gordon Management

Note: 1. Earnings is represented by EBITDAW

2. Normalised EBITDAW percentage breakdown for FY16 is not meaningful due to Claim incl. NIHL making a loss.

Each SGS business unit runs a number of interrelated businesses. The core business units are discussed in the following subsections.

²⁶ In the UK, Class Actions (or Collective Redress Action, in other legal jurisdictions) are referred to as Group Litigation.

Claims

SGS's Claims businesses provide services at many stages of the PI legal claims value chain. Claims particularly focuses on originating, assessing, and resolving PIL fast track claims that are related to Road Traffic Accidents (RTA). The Claims business also acts on Employer Liability and Public Liability (ELPL) claims. Following recent operational restructuring, SGL-UK now refers fast track employers' liability claims to SGS. In aggregate, including Claims and SGL-UK, Slater & Gordon has approximately 6 percent of the RTA claim market share²⁷ and approximately 4 percent of the combined ELPL market in the UK.

In November 2015, the British Chancellor announced PIL reforms. After subsequent revisions to the original proposal, the reforms seek to lift the small claims limit from £1,000 to £2,000 for all PI cases except road traffic accidents which would lift to £5,000. General damages on low value soft tissue claims would be subject to a fixed tariff. Whilst the precise numbers are yet to be confirmed, initial figures are below Judicial College guidelines. The proposed reforms are significant as cases heard in the small claims court are less likely to use lawyers. Should the reforms be implemented as is, it will likely reduce SGS's case volume and revenue. The initial consultation response was published in February 2017. Legislation has not yet been introduced to enact the reforms and the current status of the reforms is unclear as discussed further in Appendix 4 of this report.

SGS's Claims business unit also handles NIHL cases, which relate to claims for hearing loss from being exposed to excessive noise during employment. As part of the PSD acquisition, Slater & Gordon acquired a very large portfolio of NIHL claims, which are subject to an earn-out should the cases be settled profitably. NIHL cases are relatively complex, can require significant investment and time before settlement and are subject to a three year statute of limitations.

Key revenue drivers

RTA, ELPL and NIHL matters are subject to similar revenue drivers including:

- number of cases, which for RTA may be subject to significant regulatory headwinds. Since the PSD acquisition, SGS has ceased to acquire significant numbers of new NIHL cases, with its NIHL focus set upon maximising cash conversion from the legacy case portfolio acquired with the PSD acquisition
- average fee per case file
- case resolution profile, which on cases settled since June 2015 has averaged approximately between 8 to 23 months for various types of fast track RTA claims, 14 to 27 months for NIHL claims and 16 to 27 months for ELPL claims
- dilution rates, which have tended to be higher for RTA claims when intake volumes have been significantly higher than current monthly levels.

²⁷ Market share by claim number.

Health and Motor

The Health and Motor businesses are complementary services to PIL services, allowing SGS to generate value at additional points along the PIL value chain. The individual businesses are discussed below.

Motor

SGS Motor (SGSM) provides First Notice of Loss (FNOL) services to insurers and insurance brokers. After receiving notification of an accident from a road user, SGSM provides in-house incident management and organise not-at-fault repair and car hire via third party providers.

SGSM is the largest market participant that does not own any part of its car fleet. Its financial performance has been impacted by the recent loss of the DLG Legal (DLG) contract to Redde, a major competitor that owns a significant portion of its fleet,²⁸ and the Swinton contract.

Nevertheless, Management is of the opinion that the hire model²⁹ remains attractive and provides a key differentiator to SGSM's competitors. Management's view is that the market for FNOL, credit hire and repair services is large and there is the potential to grow market share from existing levels over time.

Health

The SGS Health (SGSH) business provides medical reporting and rehabilitation services that might be required in the course of processing a PI claim. SGSH's main businesses include:

- a medical reporting organisation, Mobile Doctors, which provides medical record and report procurement services largely to law firms, including the Claims operations within SGS and SGL-UK. Mobile Doctors receives referrals from MedCo³⁰ to provide a fixed cost medical report. MedCo is a major source of work now that it is no longer possible for claimant lawyers to commission reports from an individual or organisation with which they have a financial link
- a PI rehabilitation service, Overland Health, which organises rehabilitation for people involved in accidents. Currently, approximately 90 percent of all referrals come from SGL-UK and the Claims operations within SGS, with the balance coming from external claimant PIL firms and other sources, including occupational health service providers, corporates and public sector organisations.

²⁸ Renting vehicles is where the majority of revenue is earned from competing companies.

²⁹ The hire model is to rent vehicles rather than own them.

³⁰ MedCo is a system commenced in April 2015 by the Ministry of Justice, to facilitate sourcing of medical reports in soft tissue injury claims brought under the Ministry of Justice's Pre-Action Protocol for low value personal injury claims in Road Traffic Accidents.

9.4 Financial performance analysis

The table below summarises the financial performance of Slater & Gordon for the financial year ended 30 June 2015 (FY15), 30 June 2016 (FY16) and 30 June 2017 (FY17).

Table 5: Financial performance of Slater & Gordon

Period	12 months to		
	30-Jun-15 ¹	30-Jun-16	30-Jun-17
\$million unless otherwise stated			
<i>Revenue from contracts with customers²</i>			
SGL-A	259.8	237.8	211.3
SGL-UK	222.8	212.6	141.2
SGS	34.9	441.1	249.0
Total revenue from contracts with customers	517.4	891.5	601.5
Gain from bargain purchase	72.5	0.0	0.0
Other income (excl interest revenue)	5.0	15.7	8.8
Total expenses (excl finance and impairment)	(491.6)	(997.9)	(738.2)
EBITDA	103.3	(90.7)	(127.9)
Depreciation and amortisation	(9.9)	(17.7)	(11.2)
EBIT³	93.3	(108.4)	(139.2)
Net finance expenses (incl. facility estab & amendment fees)	(7.9)	(41.6)	(50.7)
Impairment of intangible assets	0.0	(879.5)	(361.3)
Profit/(Loss) before income tax expense	85.4	(1,029.5)	(551.2)
Income tax benefit/(expense)	(23.0)	11.9	4.3
Net Profit/(Loss) after income tax	62.4	(1,017.6)	(546.9)
EBITDAW	92.6	(49.3)	(76.1)
<i>Normalisation⁴</i>			
Significant and non-recurring items (excl. impair & facility estab/amend fees)	23.3	(85.9)	(91.8)
Normalised EBITDA	80.0	(4.7)	(36.1)
Normalised EBIT	70.0	(22.5)	(47.4)
Normalised EBITDAW	69.3	36.6	15.7
<i>Statistics⁴</i>			
Total revenue growth	na	72.3%	(32.5%)
EBITDA growth	na	(187.8%)	(41.1%)
Normalised EBITDA growth	na	(105.9%)	(664.9%)
EBIT growth	na	(216.1%)	(28.4%)
Normalised EBIT growth	na	(132.1%)	(110.8%)
NPAT growth	na	(1731.4%)	46.3%
EBITDA margin	20.0%	(10.2%)	(21.3%)
Normalised EBITDA margin	15.5%	(0.5%)	(6.0%)
EBIT margin	18.0%	(12.2%)	(23.1%)
Normalised EBIT margin	13.5%	(2.5%)	(7.9%)
NPAT margin	12.1%	(114.1%)	(90.9%)

Source: Slater & Gordon Annual Reports and Financial Report 2017, Slater & Gordon Management, KPMG Corporate Finance analysis

Note: 1. FY15 reflect the restated financials incorporating the early adoption of AASB-15 Revenue from Contracts with Customers
2. Revenue from contracts with customers is fee and services revenue plus change in WIP, where change in WIP is calculated as the increase/(decrease) in WIP compared to the previous financial year

3. EBIT (Earnings Before Interest and Tax) is statutory earnings before net interest and taxes
4. See Section 9.4 for further details (Table 6)
5. Tables may not add due to rounding.

Slater & Gordon was an early adopter of the Australian Accounting Standards Board's (AASB) standard relating to revenue recognition from contracts (AASB-15 Revenue from Contracts with Customers) in August 2015. Slater & Gordon elected to apply the standard on a full retrospective basis, as permitted by AASB-15, whereby the cumulative effect of retrospective application is recognised by adjusting opening retained profits or other relevant components of equity for the earliest comparative period presented (which was the financial year ended 30 June 2015). Consequently, the financial performance of the company prior to FY15 is not comparable to subsequent years' results. FY15's restated financial performance is materially lower when compared to the performance under the previous standard, due to a greater threshold for recognising change in WIP revenue and accruing WIP as an asset, as discussed in Section 9.5.

In relation to Table 5, we note SGS's revenue from contracts with customers (revenue) includes fee revenue (plus change in WIP) generated from legal services and services revenue related to the Motor and Health business units, with both services broadly contributing 50 percent of SGS' total revenue.

Total revenue from contracts with customers increased by 72.3 percent in FY16, reflecting a full year of revenue contribution from the PSD acquisition, with FY15 revenue only recognising one month's revenue contribution as a result of the timing of the acquisition. However, adjusting for PSD revenue results in total revenue declining by 6.7 percent year-on-year (YoY), with the existing SGL-A and SGL-UK revenue decreasing by 8.5 percent and 4.6 percent respectively. In FY17, total revenue from contracts with customers decreased by 32.5 percent, due to continued underperformance across all three operating divisions. The performance of individual operating divisions are discussed in further detail in Section 9.4.1.

Normalised EBITDA decreased in FY16 by 105.9 percent YoY due to underperformance across all operating divisions. In FY17, Normalised EBITDA loss decreased by a further 664.9 percent, as total revenue decreased more than normalised operating costs, which were down 29.1 percent. The reduction in normalised operating costs reflected the continued restructuring of the group's operating activities which were primarily driven by decreases in salaries and employee benefit expenses (down 21.9 percent), cost of sales (down 53.1 percent) and advertising and marketing expenses (down 35.7 percent).

Net finance expenses increased materially in FY16 and FY17 and margins increased, as borrowings were raised near the end of FY15 to fund the PSD acquisition. The majority of the borrowings drawn are GBP denominated and have a LIBOR reference rate.

Slater & Gordon identified the following significant and non-recurring items and other income/(expenses). Impairment of intangible assets are discussed further in Section 9.5.

Table 6: Significant and non-recurring items and other income/(expense)

Period \$million unless otherwise stated	12 months to		
	30-Jun-15	30-Jun-16	30-Jun-17
Gain from bargain purchase	72.5	-	-
Restructuring costs	-	(33.3)	(47.1)
Payments to former owners	(25.4)	(33.2)	(11.6)
Additional debtor/disbursement provisioning	0.0	(18.7)	(18.0)
Other (including Hall Proceeding settlement)	(23.8)	(0.7)	(15.1)
Operating Earnings significant and non-recurring items	23.3	(85.9)	(91.8)
Impairment of intangible assets	-	(879.5)	(361.3)
Facility establishment and amendment fees	-	(14.9)	(9.6)
Total significant and non-recurring items	23.3	(980.3)	(462.7)

Source: Slater & Gordon Annual Reports and Financial Report 2017; KPMG Corporate Finance analysis.

9.4.1 Operating divisions' financial performance

The table below summarises the financial performance of Slater & Gordon's operating divisions for FY15, FY16 and FY17.

Table 7: Financial performance of Slater & Gordon by operating division

Period	12 months to		
\$million unless otherwise stated	30-Jun-15	30-Jun-16	30-Jun-17
SGL-A Fee Revenue	245.7	265.6	226.7
Net movement in WIP - SGL-A	14.1	(27.8)	(15.5)
Revenue from contracts with customer - SGL-A	259.8	237.8	211.3
SGL-UK Fee Revenue	226.0	230.0	157.8
Net movement in WIP - SGL-UK	(3.2)	(17.4)	(16.6)
Revenue from contracts with customer - SGL-UK	222.8	212.6	141.2
SGS Fee Revenue	16.3	217.4	150.7
Net movement in WIP - SGS	(0.1)	3.9	(19.8)
SGS - Health and Motor Service Revenue	18.8	219.8	118.0
Revenue from contracts with customer - SGS	34.9	441.1	249.0
Total revenue from contracts with customer	517.4	891.5	601.5
EBITDA¹			
SGL-A	84.1	(35.5)	(50.3)
SGL-UK	25.0	(49.1)	(51.9)
SGS	(5.8)	(6.1)	(25.7)
Group EBITDA¹	103.3	(90.7)	(127.9)
Less: net movement in WIP	(10.7)	41.3	51.8
EBITDAW²	92.6	(49.3)	(76.1)
SGL-A normalised EBITDA	55.7	8.0	(0.0)
SGL-UK normalised EBITDA	30.1	(20.0)	(33.0)
SGS normalised EBITDA	(5.8)	7.3	(3.1)
Group normalised EBITDA	80.0	(4.7)	(36.1)
Statistics			
SGL-A revenue growth	na	(8.5%)	(11.1%)
SGL-UK revenue growth	na	(4.6%)	(33.6%)
SGS revenue growth	na	nmf	(43.6%)
SGL-A normalised EBITDA growth	na	(85.6%)	(100.2%)
SGL-UK normalised EBITDA growth	na	(166.5%)	(65.0%)
SGS normalised EBITDA growth	na	nmf	(143.3%)
Group normalised EBITDA growth	na	(105.9%)	(664.9%)
EBITDAW growth	na	(153.3%)	(54.2%)
SGL-A normalised EBITDA margin (%)	21.4%	3.4%	(0.0%)
SGL-UK normalised EBITDA margin (%)	13.5%	(9.4%)	(23.4%)
SGS EBITDA normalised margin (%)	(16.6%)	1.6%	(1.3%)

Source: Slater & Gordon Annual Reports and Financial Report 2017, Slater & Gordon management, KPMG Corporate Finance analysis

Note: 1. EBITDA is statutory earnings before net interest, taxes, depreciation, amortisation and impairment
2. EBITDAW is statutory EBITDA before net movement in WIP
3. nmf = not meaningful figure
4. Tables may not add due to rounding.

Slater & Gordon's revenue grew strongly over the period from listing in FY07 (\$62.9 million) to FY15 (\$517.4 million) (compound annual growth rate (CAGR) of 30.1 percent) which is

largely attributable to the acquisition strategy adopted by the Slater & Gordon during this period. The financial performance of each operating division is discussed below.

SGL-A Financial Performance

In FY16, SGL-A's revenue and normalised EBITDA decreased by 8.5 percent and 85.6 percent respectively, driven by an unfavourable movement in WIP of \$27.8 million due to a reduction in the number of new files opened. Contributing to the reduced earnings was the underperformance of the Queensland PIL as a result of increased competition, in part related to workers compensation legislative change. Overall, SGHL-A's PIL case intake volumes for the year decreased as a result of fewer acquired files, with case settlements exceeding the number of new files opened. Compounding the impact of the reduced revenue, SGL-A recognised higher costs related to increases in labour, IT, audit, legal services and corporate overheads.

In FY17, SGL-A continued to underperform with revenue decreasing by 11.1 percent and normalised EBITDA loss increased by 100.2 percent. The decrease in revenue comprised of declines in both PIL and GL, where PIL underperformance was due to a decline in case resolution rates. In addition, GL recorded adverse revenue variances due to run-off of conveyancing works, which was partly offset by a strong performance in class actions. Poor revenue performance was partly offset by declines in marketing, accommodation and labour costs. Relative to FY16, PIL case intake volumes were lower in FY17 due to a decline of acquired file stock and performed materially below the target management had set.

SGL-UK Financial Performance

In FY16, similarly to SGL-A, SGL-UK's revenue and normalised EBITDA decreased by 4.6 percent and 166.5 percent respectively. This was driven by an unfavourable movement in WIP of \$17.4 million due to a reduction in the number of new files opened, which occurred as a result of continued rationalisation of business size and scale in the UK. In addition, revenue was impacted by operational reorganisation as SGL-UK closed offices, transferred files between offices and teams and commenced the run-off of its fast track RTA business.

In FY17, revenue decreased by 33.6 percent and normalised EBITDA loss increased by 65.0 percent. Fee revenue was impacted by the reduction in size of business following the business rationalisation program. In addition, revenue from contracts with customers continued to be impacted by negative movements in WIP.

SGS Financial Performance

In FY17, SGS contributed 41.4 percent (49.5 percent in FY16) of total revenue and 20.1 percent (6.7 percent in FY16) of the total EBITDA loss to Slater & Gordon. As PSD, rebranded SGS,

was acquired late in May 2015, FY15 is not comparable to FY16. Therefore, the performance of SGS in FY17 compared to FY16 has only been considered.

Revenue decreased by 43.6 percent in FY17, which was attributed to an intentional reduction in RTA case intake.³¹ In addition, the loss of the DLG and Swinton contracts resulted in large decrease in motor revenue.

Normalised EBITDA decreased from \$7.3 million to a loss of \$3.1 million in FY17. The 143.3 percent decrease in earnings included a \$19.8 million adverse movement in WIP.

Resolution of NIHL cases during FY17 continues to be slower than expected on acquisition, though has improved from FY16 resulting in the reduced negative contribution to earnings. No change in WIP revenue is recognised in relation to NIHL due to uncertainty over the consideration to be achieved in a successful outcome. Consequently, costs associated with NIHL cases in progress are expensed as they are incurred. Additionally, disbursements paid in relation to NIHL cases are expensed through the profit and loss as they are paid.

9.4.2 Distributions

The following table outlines the dividend metrics of Slater & Gordon for FY15, FY16 and FY17.

Table 8: Dividend metrics

Period	12 months to		
	30-Jun-15	30-Jun-16	30-Jun-17
\$million unless otherwise stated			
Weighted average number of Slater and Gordon shares (millions)	234.8	351.9	351.4
Basic EPS (cents)	26.5	(289.1)	(155.6)
Dividends per share (cents) ¹	9.0	-	-
Dividend payout ratio (%)	33.9%	-	-
Proportion of dividend franked (%)	40.0%	-	-

Source: Slater & Gordon Annual Reports and Financial Report 2017, Slater & Gordon Management

Note: 1. Dividends per share represent the total dividends declared in respect of the financial year, including both interim and final dividends.

Slater & Gordon declared dividends of \$26.7 million in FY15, which represented a dividend payout ratio of 33.9 percent. In FY16, no dividends were declared in adherence with the terms and conditions that were agreed to as part of the amendments to the group's existing facility agreement in May 2016. In FY17, no final dividend was declared or proposed.

9.5 Financial position analysis

The table below summarises the financial position of Slater & Gordon as at 30 June 2015, 30 June 2016 and 30 June 2017.

³¹ Management have reduced case intakes to focus on improving RTA resolution rates.

Table 9: Financial position of Slater & Gordon (Statutory)

As at			
\$ million unless otherwise stated	30-Jun-15	30-Jun-16	30-Jun-17
Cash and cash equivalents	97.0	82.5	33.3
Receivables and other assets	675.7	590.1	508.6
Work in progress	676.7	587.5	515.0
Payable, provisions and other liabilities	(705.8)	(548.4)	(504.4)
Net working capital	743.6	711.8	552.5
Property, plant and equipment	32.0	33.2	26.6
Intangible assets	1,343.2	394.0	13.1
Deferred tax assets	88.2	46.7	34.7
Deferred tax liabilities	(144.1)	(113.0)	(93.4)
Total funds employed	2,062.9	1,072.7	533.5
Interest bearing liabilities	(711.1)	(764.8)	(780.9)
Derivative financial instruments	(1.6)	(2.8)	(1.4)
Total debt	(712.7)	(767.6)	(782.3)
Net assets	1,350.2	305.1	(248.8)
Non-controlling interest	(0.4)	(0.1)	0.2
Net assets attributable to Slater and Gordon shareholders	1,349.8	305.0	(248.6)
Statistics			
Slater and Gordon shares on issue at period end (million)	350.7	352.4	347.2
Net assets per share (\$)¹	3.85	0.87	(0.72)
Gearing²	35%	72%	147%

Source: Slater & Gordon Annual Reports and Financial Report 2017, Slater & Gordon Management

Note: 1. Calculated as net assets divided by total number of shares on issue at period end
2. Calculated as total borrowings divided by the sum of total borrowings and net assets
3. Tables may not add due to rounding.

Slater & Gordon restated its statements of financial position for FY15 and FY16 as a result of the early adoption of AASB-15, which required the recalculation of its PIL NWNF WIP balances for the two years ended 30 June 2016. PIL NWNF WIP balances are calculated per the below formula.

Figure 6: NWNF WIP calculation

WIP	=	No. of cases	x	average fee per case	x	stage of completion	x	probability of success

Source: Slater & Gordon Management.

Under the new standard, there is a greater consistency and a more systematic approach to generating reported values of revenue and WIP. This resulted in the recalculated PIL NWNF WIP balances being 15 percent to 20 percent lower than under the previous standard. Consequently, statements of financial position for periods prior to FY15 are not comparable to subsequent financial years.

In relation to the table above, it is noted:

- as a law firm that focusses on PIL cases that are predominantly conducted on a NWNF basis, Slater & Gordon has significant working capital needs as PIL cases take on average between 6-24 months to reach a successful outcome. The major components of working capital include:
 - WIP, which accrues as matters reach certain codified milestones.³² WIP of \$515.0 million at 30 June 2017 relates to PI (\$488.3 million), Project Litigation (\$14.6 million) and other (\$12.1 million). At 30 June 2017, \$294.9 million of WIP was current and \$220.1 million was non-current
 - WIP is not valued for NIHL cases that formed part of the SGS acquisition due to a lack of a sample size regarding success rates of NIHL cases
 - receivables of \$487.0 million at 30 June 2017 consists of trade receivables (\$226.4 million), impairment of trade receivables (\$69.4 million), disbursements (\$421.1 million), allowance for non-recovery of disbursements (\$94.0 million) and other receivables (\$2.9 million). Disbursements are recoverable external payments made on behalf of the client for services related to the case, such as barrister and doctor fees, courier fees, and court fees. At 30 June 2017, \$395.5 million of receivables were current and \$91.5 million were non-current
 - current payables of \$418.6 million at 30 June 2017, consists of trade creditors and accruals (\$150.0 million), legal creditors (\$268.0 million) and vendor liabilities for acquisitions (\$0.6 million). Legal creditors represent payables related to disbursements where the group has favourable payment terms with vendors, whereby the payment will not be made by the group until the group receives payment from any settlement proceeds from a matter
- as services from Slater & Gordon have relatively low fixed capital needs, property, plant and equipment was \$26.6 million at 30 June 2017, comprising plant & equipment (\$25.7 million), land & buildings (\$0.3 million) and low value asset pool (\$0.6 million)
- in recent years, intangible assets largely reflected goodwill as a result of Slater & Gordon's acquisition strategy, peaking in FY15 at \$1,343.2 million. However, as at 30 June 2017, intangibles were \$13.1 million, wholly consisting of software development (\$13.1 million). The large decrease was a result of a number of write downs, including:
 - at 31 December 2015, there were indications that an impairment may exist due to underperformance in the business and internal projections indicating an adverse impact from the regulatory environment in the UK as a result of the Chancellor's November

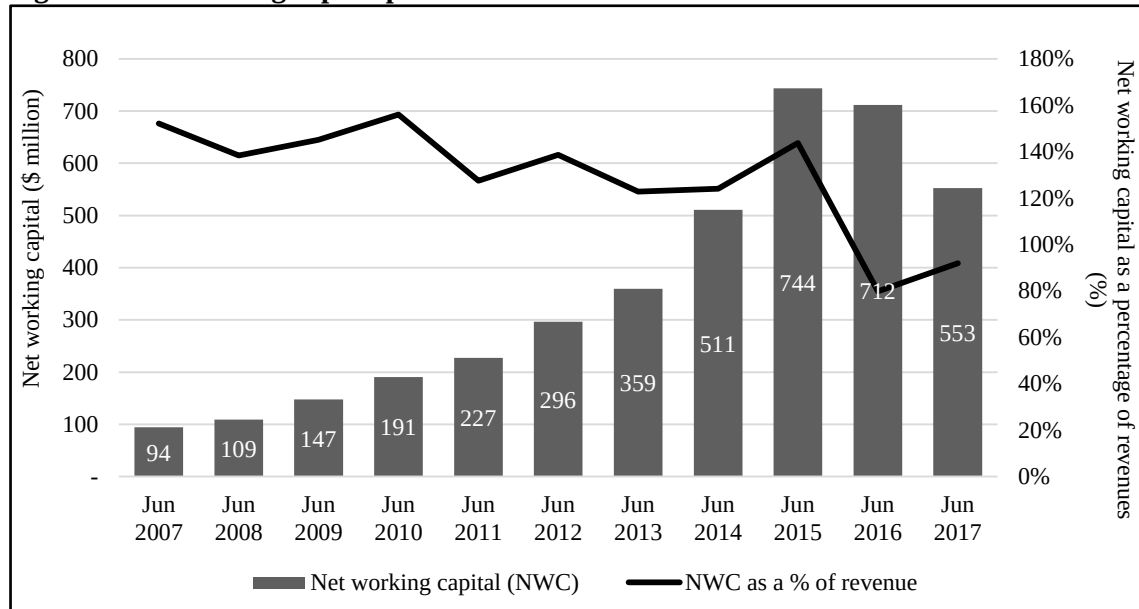
³² The corresponding journal entry as WIP accrues on the balance sheet is for change in WIP to be recognised as revenue on the income statement. When a matter reaches a successful outcome the WIP is transferred to accounts receivable on the balance sheet and the change in WIP is reclassified as Fee Revenue on the income statement; If the matter does not reach a successful outcome the WIP is written off and change in WIP is reversed as contra revenue.

2015 statement. Management performed an impairment test for all Cash Generating Units (CGUs) and recognised an \$876.4 million impairment

- at 30 June 2016, a further assessment was performed, resulting in the impairment of the remainder of the NSW PI goodwill balance of \$3.1 million due to the NSW Government's announced proposals regarding car accident claim compensation
- at 31 December 2016, a further \$350.3 million impairment was recognised against the UK's CGUs' goodwill and brands and trademarks due to the poor performance of the CGUs relative to budget
- at 30 June 2017, an additional \$11.0 million impairment was recognised against Victorian PIL goodwill (\$5.9 million) and software development (\$5.1 million)
- derivative financial instruments, as at 30 June 2017, of \$1.4 million relate to interest rate swaps
- borrowings, as at 30 June 2017, were \$780.9 million, which is comprised of \$760.9 million from the SFA (net of unamortised debt raising cost), \$15.0 million from the working capital facility and \$5.1 million in finance lease liability. Total borrowings consists of short term borrowings (\$466.2 million) and long term borrowings (\$314.7 million). Borrowings are discussed further in Section 9.5.2.

9.5.1 Working Capital

As a consequence of Slater & Gordon's fee structure, with its high reliance on PIL and resultant WIP balance, generating organic growth requires working capital investment. Current working capital investment has been significant and has increased historically, as shown in the figure below.

Figure 7: Net working capital profile

Source: Slater & Gordon Annual Reports and Financial Report 2017, Slater & Gordon Management

Note: 1. Net working capital is calculated as cash + receivables (current and non-current) + work in progress (current and non-current) + current tax assets + other assets (current and non-current) – payables (current and non-current) – current tax liabilities – other current liabilities – provisions (current and non-current)
2. Net working capital for FY14 represents non-restated figures.

In relation to the above figure, we note:

- working capital requirements in Australia are reduced through the use of a third party disbursement funder.³³ Slater & Gordon is investigating agreements for similar relationships in the UK
- working capital requirements include the cash and cash equivalents given the nature of business operations, fee collection profile, disbursements funding dynamic (where not third party funded) and potential timing of discrete receipts in project litigation practices
- after listing in FY07, net working capital increased steadily up until FY15, representing a CAGR of 29.4 percent over this period. The significant growth in net working capital was driven by the acquisition of additional law practices, with net working capital in the range of 123 percent and 156 percent of revenue over this period. We note that net working capital as

³³ The group had an agreement with Equal Access Funding Proprietary Limited (EAFP) to act as Slater & Gordon's Australian third party disbursement funder. As at 30 June 2017, EAFP had funded the group's clients \$16.0 million (FY16: \$19.0 million).

a percent of revenue is high relative to other professional services businesses, which generally reflects the working capital intensity of utilising a NWNF business model³⁴

- in FY15, net working capital increased significantly due to the acquisition of PSD. This was offset by an impairment of receivables during the year, which was restated to \$94.4 million due to a revision of provisioning policies relating to debtors and disbursements in FY16
- in FY16, net working capital decreased by \$31.8 million. Key changes related to:
 - work in progress decreasing by \$89.2 million, of which \$41.3 million was predominately due to a decline in Australian and UK PIL case volumes and the resolution of work in progress during the period. The remainder was due to a depreciation of the GBP relative to the AUD.
 - receivables decreasing by \$68.3 million, partly due to the decrease in pro forma fees over the period³⁵
 - payables decreasing by \$151.7 million, which partially offset the decrease in work in progress and receivables and reflected a \$83.5 million decrease in trade creditors and accruals and a \$48.9 million decrease in legal creditors
- in FY17, net working capital decreased by \$159.2 million. Key changes related to:
 - work in progress decreasing by \$72.6 million, primarily driven by a decline in Australian and UK PIL case volumes and the resolution of work in progress during the period as well as depreciation of the GBP relative to the AUD.
 - receivables decreasing by \$50.8 million, predominately due to a decrease in fees over the period and initiatives to improve the average days of receivables outstanding, which was partially offset by a \$26.1 million increase in non-current disbursements
 - payables decreasing by \$45.5 million, which partially offset the decrease in work in progress and receivables and was predominately due to a \$23.7 million decrease in trade creditors and accruals.

9.5.2 Debt

In May 2016, Slater & Gordon announced amendments to its existing SFA with its lending group. The new SFA had an overall limit of £375 million and \$90 million with expiry dates between May 2018 and March 2019.

³⁴ We note that net working capital as a percent of revenue can be overstated by acquisitions, as under this circumstance the whole balance sheet is consolidated at the end of financial year while less than a full year's revenue is recognised on the group's income statement.

³⁵ Based on high level analysis of the financial information from the FY15 and FY16 Slater & Gordon annual reports and Quindells 31 December 2014 and 31 December 2015 annual reports. Pro forma fees inclusive of a full year of revenue PSD for FY15 were materially more than revenue in FY16

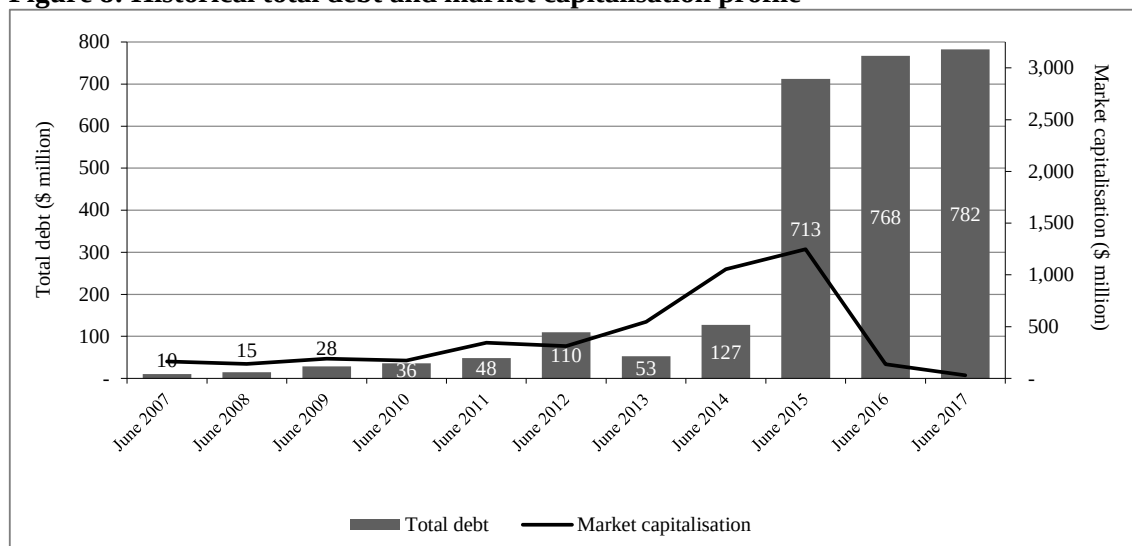
With effect from 27 December 2016, the Group agreed various amendments to the SFA with its banking syndicate. Facilities provided under the SFA are fully drawn with borrowings of \$761.6 million recognised as at 30 June 2017.

Based on exchange rate of 0.5912 as at 30 June 2017, inclusive of debt raising costs, \$450.2 million is repayable in May 2018 and \$311.4 million is repayable in March 2019. With regard to the SFA facilities, we note the following:

- the debt facility drawdowns have been used to fund business acquisitions, meet day-to-day working capital requirements and for general corporate purposes. They are secured by a fixed and floating charge over the assets of Slater & Gordon. As at 30 June 2017 Slater & Gordon remained in compliance with all its undertakings under the SFA
- the majority of financial liabilities (net) are unhedged, with the notional principal amounts of the swap contracts approximating 12 percent of the Company's outstanding borrowings on the SFA at 30 June 2017 (FY16: 12 percent)
- on 31 March 2017, Slater & Gordon agreed to make further amendments to its SFA. This amendment includes the capitalisation of \$32 million of interest payments which were due for payment on 28 June 2017 and consent to incur new working capital facility of up to \$40 million for working capital
- on 5 May 2017, Slater & Gordon announced that it had entered into an additional \$40 million super senior facility with the Senior Lenders. This facility was established to provide additional financial resources to support ongoing restructuring discussions with the Senior Lenders as well as to provide additional working capital for Slater & Gordon. Prior to the year ending 30 June 2017, \$15 million has been drawn down from the facility and an additional \$12.5 million was drawn on 15 August 2017
- on 29 June 2017, Slater & Gordon entered into a binding recapitalisation agreement with its lenders. Under these new secured debt facility arrangements, the existing senior secured debt would be partially amended and restated to senior secured debt facilities and convertible notes in S&G UK to be issued to and held by the Supporting Lenders
- on 31 August 2017, Slater & Gordon entered into an amended binding RSD with 100 percent of the Senior Lenders in relation to the Recapitalisation. The revised terms of the Recapitalisation will provide the Company with an additional \$50.0 million, on top of the existing \$40.0 million working capital facility. Further, all UK operations and subsidiaries will be separated from the Company and transferred to UK HoldCo, which will be wholly owned by the Senior Lenders following implementation of the Recapitalisation. As a result of this, the total working capital facilities will be separated into a \$65 million AUD denominated facility with the Company for the Australian business and a GBP denominated facility for \$25.0 million AUD. Additionally, the original senior secured debt under the SFA will be refinanced to \$60.0 million post-implementation of the Senior Lender Scheme with substantially the same terms as the SFA with the key amendments being the term (extended to five years) and the interest (which going forward will be payment-in-kind based).

Slater & Gordon's historical total debt and market capitalisation profile is depicted in the following figure.

Figure 8: Historical total debt and market capitalisation profile



Source: Slater & Gordon Annual Reports and Financial Report 2017.

9.5.3 Contingent assets and liabilities

There is currently one potential contingent asset and one contingent liability associated with Slater & Gordon. They are as follows:

- Slater & Gordon notified Watchstone Plc in September 2016 of various claims it would bring about in relation to the PSD acquisition. As a result of a favourable independent barrister's opinion, the £50 million escrow amount has been formally locked in place until an agreement is reached or litigation on the claims is concluded. On 14 June 2017, Slater & Gordon confirmed that its UK subsidiary filed and served a claim against Watchstone Plc in the High Court of England and Wales for approximately £600 million
- Slater & Gordon has provided a financial guarantee to Equal Access Funding Proprietary Limited (EAFP), a third party disbursement funder, for the repayment of clients' obligations. EAFP has funded \$16.0 million of disbursements at 30 June 2017 and therefore is liable for \$16.0 million if disbursements are not recovered from the client.

On 21 September 2017, Slater & Gordon announced it signed a binding agreement to settle the class action proceeding in relation to the Hall Proceeding, through a mediation process facilitated by the Federal Court. The binding settlement will also resolve any and all potential shareholder claims against the Company and its Directors and Officers. The settlement is subject to approval by the Federal Court of the settlement terms. The settlement of all other shareholder claims will be effected by the Shareholder Claimant Scheme.

The Hall Proceeding Settlement, Shareholder Claimant Scheme and the Senior Lender Scheme are all conditional on each other, with court approval being sought simultaneously.

9.6 Cash flow analysis

WIP is a key driver of cash flow from operations. The adoption of AASB-15 has reduced volatility in relation to WIP recognition, as the requirement under the new standard for revenue to be recognised is a higher threshold than previously required for revenue recognition.

The table below summarises the cash flow statement of Slater & Gordon for FY15, FY16 and FY17 on a statutory basis.

Table 10: Cash flow of Slater & Gordon (Statutory)

As at	12 months to		
\$ million unless otherwise stated	30-Jun-15	30-Jun-16	30-Jun-17
EBITDAW	92.6	(49.3)	(76.1)
Movement in WIP	10.7	(41.3)	(51.8)
EBITDA	103.3	(90.7)	(127.9)
Changes in net working capital and other items	(49.9)	(1.9)	84.2
Interest paid (net)	(6.6)	(34.9)	(6.4)
Tax paid	(6.0)	23.2	11.1
Operating Cash Flow	40.8	(104.2)	(39.1)
Payment for software and property, plant & equipment	(22.3)	(18.1)	(8.2)
Costs associated with originating loans	(9.5)	-	-
Costs, repayments and payments associated with acquisitions	(1,372.4)	(10.4)	(2.1)
Proceeds from disposal of businesses	-	0.2	(1.5)
Pre-financing cash flow	(1,363.4)	(132.5)	(50.9)
Proceeds from share issue (net)	872.5	(0.1)	(0.0)
(Loans/payments to)/proceeds from related parties and employees	3.4	(5.4)	(5.7)
Proceeds from borrowings (net)	550.1	148.0	11.4
Dividends paid	(15.9)	(17.1)	-
Net increase/(decrease) in cash held	46.7	(7.0)	(45.2)
Cash at beginning of financial year	25.3	97.0	82.5
Net foreign exchange difference	25.0	(7.5)	(4.0)
Cash at end of period	97.0	82.5	33.3

Source: Slater & Gordon Annual Reports and Financial Report 2017

Note: Tables may not add due to rounding.

In relation to Slater & Gordon's cash flows as presented in the table above, we note the following:

- in FY17 net operating cash outflows decreased to \$39.1 million (FY16: \$104.2 million outflow). Consistent with prior year, cash outflows continue to be impacted by significant non-recurring consulting costs, material facility amendment fees and higher interest margins
- net cash outflows used in investing activities for FY17 reduced by \$16.5 million relative to FY16 as a result of lower acquisition-related costs, particularly deferred acquisition consideration in relation to previous acquisition

- capital expenditure reduced from FY16 to FY17 with outlays of \$18.1 million and \$8.2 million, respectively. This was driven by a reduction in payments for plant and equipment, in which the carrying value has decreased by \$6.7 million over the period
- during FY17, the Company recorded \$5.6 million in net cash inflows from financing activities compared to \$125.5 million in FY16. This reflects the significant net reduction associated with proceeds from borrowings, capitalised interest costs and facility amendment fees
- dividends paid during FY16 relates to FY15 interim dividends of 3.5 cents per share (40 percent franked) and FY15 full year dividends of 5.5 cents per share (40 percent franked). Slater & Gordon has not declared any dividends in respect to FY16 and FY17.

9.7 Issued capital

As at 30 June 2017, Slater & Gordon has the following securities on issue:

- 347,245,601 ordinary shares on issue
- 356,000 performance rights.

Further, warrants issued pursuant to the SFA, entitling the holders of the warrants to be issued ordinary Shares equal to 15.0 percent of the value uplift, being the difference between the market capitalisation of the Company on the deferred restructure fee payment date and the market capitalisation of the Company on the date of Amendment Agreement (No 5) (terms as defined in the SFA). As only 41.6 percent of Senior Lenders elected to receive these warrants in lieu of a cash payment, the maximum number of ordinary Shares to be issued in satisfaction of the warrants is equal to 6.24 percent of the value uplift.

The Shares are listed and traded on the ASX. Shareholders are entitled to receive dividends (should the directors elect to pay them) and cast one vote per share at shareholder meetings.

As per the 30 June 2017 Financial Report, the vesting of the performance rights is to be assessed in September 2017. These rights have now been assessed and the Board has resolved that they have not met the performance based vesting hurdles and are lapsed. All other performance rights and Shares were either cancelled or extinguished as at 30 June 2017. As such, these securities have been excluded in our valuation.

Accordingly, on a fully diluted basis the total number of Shares Pre-Recapitalisation is 347,245,601 (being the 347,245,601 ordinary shares).

Ordinary shares

As at 30 June 2017, Slater & Gordon had 347,245,601 Shares on issue. Shareholders are entitled to receive dividends and distributions and also have voting rights. The following table outlines the top ten Shareholders as at 30 June 2017. Whilst the top ten Shareholders collectively held 14.18 percent, no single Shareholder had control over Slater & Gordon as at 30 June 2017.

Table 11: Top 10 Slater & Gordon shareholders as at 30 June 2017

Shareholder	Number of Slater & Gordon shares	% of issued capital
Citicorp Nominee Pty Limited	7,138,314	2.1%
Mr Andrew Grech	7,000,656	2.0%
HSBC Custody Nominees (Australia) Limited	5,681,219	1.6%
Mr Ken Fowlie	5,646,221	1.6%
JBWere (NZ) Nominees Limited	4,297,564	1.2%
Mr Hayden Stephens	4,804,115	1.4%
JP Morgan Nominees Australia Limited	4,239,548	1.2%
Comsec Nominees Pty Limited	3,937,049	1.1%
BNP Paribas Nominees Pty Ltd	3,684,700	1.1%
Mr Peng Ren	2,800,000	0.8%
Total Slater & Gordon shares held by top 10 shareholders	49,229,386	14.18%
Other Slater & Gordon shares	298,016,215	85.82%
Total Slater & Gordon shares on issue	347,245,601	100.00%

Source: Slater & Gordon Management, KPMG Corporate Finance analysis.

9.8 Directors' interests

As at 30 June 2017, the Directors held a combined relevant interest of 2.05 percent in Slater & Gordon. The Directors' interest in Shares as at 30 June 2017 is detailed in the table below. We note that as part of the 29 June 2017 ASX announcement, Andrew Grech stepped down from his position as Group Managing Director effective immediately, though he remains a Non-Executive Director of Slater & Gordon in the short term.

Table 12: Directors' interest at 30 June 2017

Name	Position	Number of Slater & Gordon shares	% of issued capital
Andrew Grech	Executive Director	7,000,656	2.02%
John Skippen	Non-Executive Director	100,000	0.03%
James M. Millar	Non-Executive Director	20,000	0.01%
Tom Brown	Non-Executive Director	n/a	n/a
Total Slater and Gordon shares held by top 10 shareholders		7,120,656	2.05%

Source: Slater & Gordon Annual Report 2016 and KPMG Corporate Finance analysis

Note: n/a represents not applicable.

9.9 Trading performance

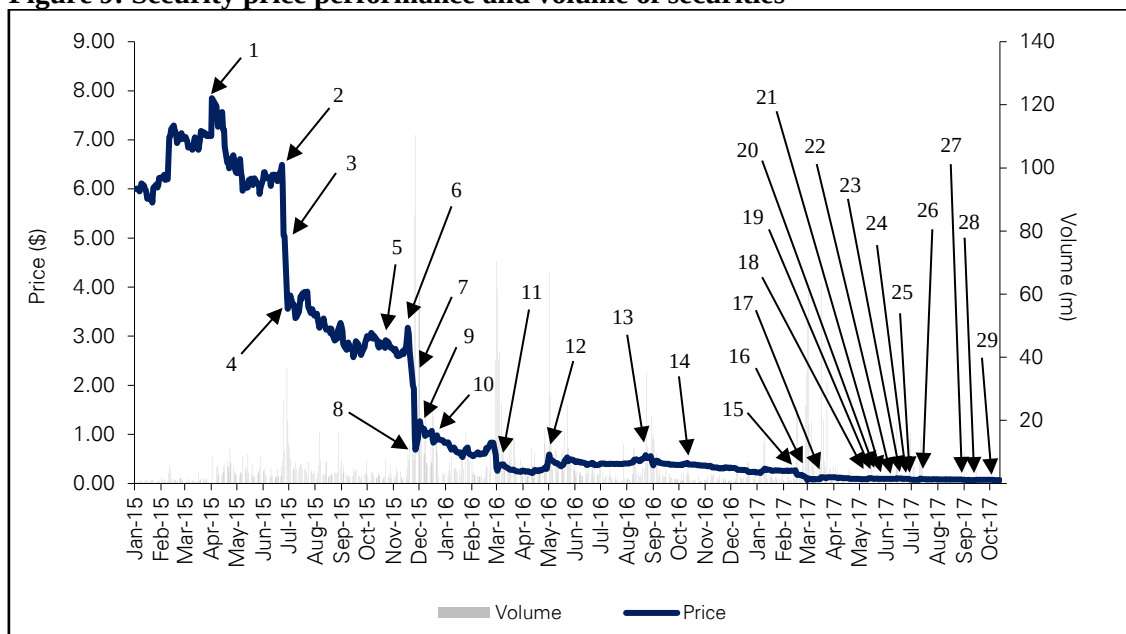
In assessing Slater & Gordon's security price performance, we have:

- analysed price and volume performance since 1 January 2015
- compared Slater & Gordon's security price movement to the S&P/ASX Small Ordinaries (Small Ordinaries) and comparable company, Shine Corporate Limited (Shine) (ASX:SHJ) over the period from 1 January 2015 to 13 October 2017
- assessed the volume weighted average price (VWAP) and trading liquidity of Slater & Gordon securities for the period pre and post the announcement of the Recapitalisation.

9.9.1 Security price and volume performance

Slater & Gordon's security price performance and the volume of securities traded over the period from 1 January 2015 to 13 October 2017 is illustrated below.

Figure 9: Security price performance and volume of securities



Source: Iress, KPMG Corporate Finance analysis.

Significant announcements by Slater & Gordon from 1 January 2015 to 13 October 2017 that may have had an impact on its recent share price include:

1. 30 March 2015 – Slater & Gordon announced the Company had entered into an agreement to acquire Quindell's PSD for an upfront consideration of \$1,225 million. The Company also announced its intention to fund the acquisition through an equity raise of approximately

\$890 million. Following these announcements the share price increased from a closing price of \$7.08 on 30 March 2015 to an intra-day high of \$7.93 on 2 April 2015

2. 24 June 2015 – the Australian Financial Review reported that ASIC had begun investigating Slater & Gordon and its auditor, Pitcher Partners. The report was denied by the Company and an announcement to this effect was released to dismiss the ASIC probe. Shares decreased by approximately 6 percent from \$6.49 on 23 June 2015 to \$6.13 on 24 June 2015 with an intra-day low of \$6.11
3. 25 June 2015 – Slater & Gordon announced that the Financial Conduct Authority, ASIC's UK counterpart, had launched an investigation into statements relating to Quindell's financial accounts for the 2013 and 2014 financial years. The share price declined by a further 17 percent, falling from \$6.13 on 24 June 2015 to \$5.06 on 25 June 2015 with an intra-day low of \$4.74
4. 29 June 2015 – Slater & Gordon released a statement confirming that the Company was under investigation by ASIC and that Ernst & Young had been engaged to assist with initial ASIC queries. In addition, the Company announced Ernst & Young had uncovered an accounting error overstating cash receipts and payments over three years due to tax miscalculations from its first British acquisition in 2013. The share price fell a further 25 percent from \$5.06 on 25 June 2015 to \$3.78 on 29 June 2015
5. 27 October 2015 – Slater & Gordon announced Wayne Browne's decision to step down as Group CFO. The share price declined from \$2.83 on 27 October 2015 to \$2.78 on 28 October 2015
6. 18 November 2015 – Slater & Gordon announced the former Navitas CFO, Bryce Houghton would be appointed as the new CFO. The share price fell approximately 4 percent from \$3.17 on 18 November to \$3.05 on 19 November 2015
7. 20 November 2015 – the Annual General Meeting for Slater & Gordon was held on 20 November 2015. Operating results were restated and the share price continued to decline, falling 12 percent from \$3.05 on 19 November to \$2.68 on 20 November 2015 with an intra-day low of \$2.63
8. 26 November 2015 – the UK Government announced proposals to implement changes to the current compensation schemes including alterations to the compensation available and the minimum claim threshold for people injured in road traffic accidents. The share price decreased by 64 percent from \$1.94 on 25 November 2015 to \$0.69 on 27 November. This was the first time the Company's share price had fallen below \$1.00 since it listed in 2007
9. 30 November 2015 – Slater & Gordon released a statement on its revenue and EBITDAW guidance for FY16 and the volume of the stock traded increased by approximately 20 times

the average daily turnover. The share price recovered from a low of \$0.69 on 27 November 2015 to \$0.93 on 30 November 2015

10. 17 December 2015 – Slater & Gordon released a statement noting trading results were lower than expected in segments of the business in the UK in November and the Company withdrew its previous full year guidance for the 2016 financial year. The share price declined approximately 17 percent from \$1.08 on 16 December 2015 to \$0.89 at the close of 17 December 2015
11. 29 February 2016 – Slater & Gordon announced FY16 half year results detailing significant underperformance including a \$958.3 million loss for six months ended 31 December 2015 impacted by a \$876.4 million non-cash impairment charge against the carrying value of goodwill. The share price decreased from \$0.58 on 29 February 2016 to a low of \$0.32 on 1 March 2016
12. 2 May 2016 – Slater & Gordon announced the Company's agreement with its lenders to amend terms of the existing SFA, allowing facility limits and maturities to be maintained. The market reacted positively with increased trading volumes and a price increase from a low of \$0.32 on 1 March 2016 to \$0.59 on 2 May 2016
13. 24 August 2016 – Slater & Gordon released an update on earnings and balance sheet guidance for financial year ended 30 June 2016. The guidance referenced a turnaround in the performance of the UK business however the share price decreased from \$0.58 on 23 August 2016 to \$0.52 on 24 August 2016 with an intra-day low of \$0.50
14. 13 October 2016 – Slater & Gordon was served with the Hall Proceeding, shareholder class action. The share price remained stable at \$0.39 following the announcement
15. 16 February 2017 – Slater & Gordon announced it was continuing to work toward a recapitalisation plan with its lenders as its current levels of debt exceeded total enterprise value. The share price decreased from \$0.27 on 15 February 2017 to \$0.20 on 16 February 2017 with an intra-day low of \$0.18
16. 27 February 2017 – Slater & Gordon released the FY17 half year financial results which reported a \$425.1 million net loss after tax for the half year ended 31 December 2016. The results included commentary from the Managing Director at the time, Andrew Grech, addressing key issues for Slater & Gordon moving forward. The share price decreased from \$0.16 on 24 February to a low of \$0.13 on 27 February 2017
17. 17 March 2017 – Slater & Gordon advised that in excess of 94 percent of its debt facility had traded from its original syndicate of par lenders to secondary debt buyers. The share price increased 46.1 percent from \$0.09 on 16 March 2017 to \$0.13 on 17 March 2017
18. 5 May 2017 – Slater & Gordon released an update in relation to the execution and completion of an agreement with its new Senior Lenders for the provision of a new working

capital facility. The \$40 million facility has a three year term and will provide working capital headroom in the Company's plan to restore financial performance

19. 12 May 2017 – Slater & Gordon confirmed that its UK subsidiary intended to file a claim against Watchstone Group plc (formerly known as Quindell Plc) in the High Court of England and Wales for approximately £600 million. Following the update, the share price increased from \$0.09 on 11 May 2017 to \$0.11 on 12 May 2017 with an intra-day high of \$0.13
20. 15 May 2017 – Slater & Gordon confirmed that its UK subsidiary, SGS, received a notice requiring production of documents from the UK Serious Fraud Office. On the day, the share price reached an intra-day high of \$0.12 and closed at \$0.11
21. 24 May 2017 – Slater & Gordon was served with an application to the Federal Court issued on behalf of Mr Delaney (the Delaney Application). The share price decreased from \$0.10 on 23 May 2017 to \$0.09 on 24 May 2017
22. 8 June 2017 – Slater & Gordon received notice of potential class action proceeding from Johnson Winter & Slattery Lawyers on behalf of Babs cay Pty Ltd based on allegations of misleading representations in the Company's recent financial statements
23. 14 June 2017 – Slater & Gordon confirmed that its UK subsidiary filed and served a claim on Watchstone Group Plc. The Company also announced an in principle agreement was reached to settle the landmark Manu Island class action for \$70 million plus relevant legal costs, subject to approval. The share price rose from \$0.09 on 13 June 2017 to \$0.11 on 14 June 2017 with an intra-day high of \$0.12
24. 20 June 2017 – Slater & Gordon advised that Babs cay Pty Ltd served a class action proceeding on the Company. The share price experienced an intra-day high of \$0.11 on 20 June 2017 from \$0.10 on 19 June 2017
25. 29 June 2017 – Slater & Gordon announced it had entered into a RSD with its Supporting Lenders to undertake the Recapitalisation which would be implemented via the Senior Lender Scheme. The share price rose to an intra-day high of \$0.10 on 29 June 2017 from a price of \$0.09 at the close of 28 June 2017
26. 11 July 2017 – Slater & Gordon released an update in relation to reaching an in principle conditional agreement to settle the Hall Proceeding, the settlement of which would also resolve any and all potential shareholder claims against the Company and its Directors and Officers during a specified period of time. The share price increased from \$0.08 on 11 July 2017 to \$0.10 on 12 July 2017
27. 31 August 2017 – Slater & Gordon released its full year results for FY17 which reported a 32.7 percent decline in revenue from ordinary activities and 46.3 percent increase in net loss after tax. It was stated "The Directors continue to hold the view that current levels of bank

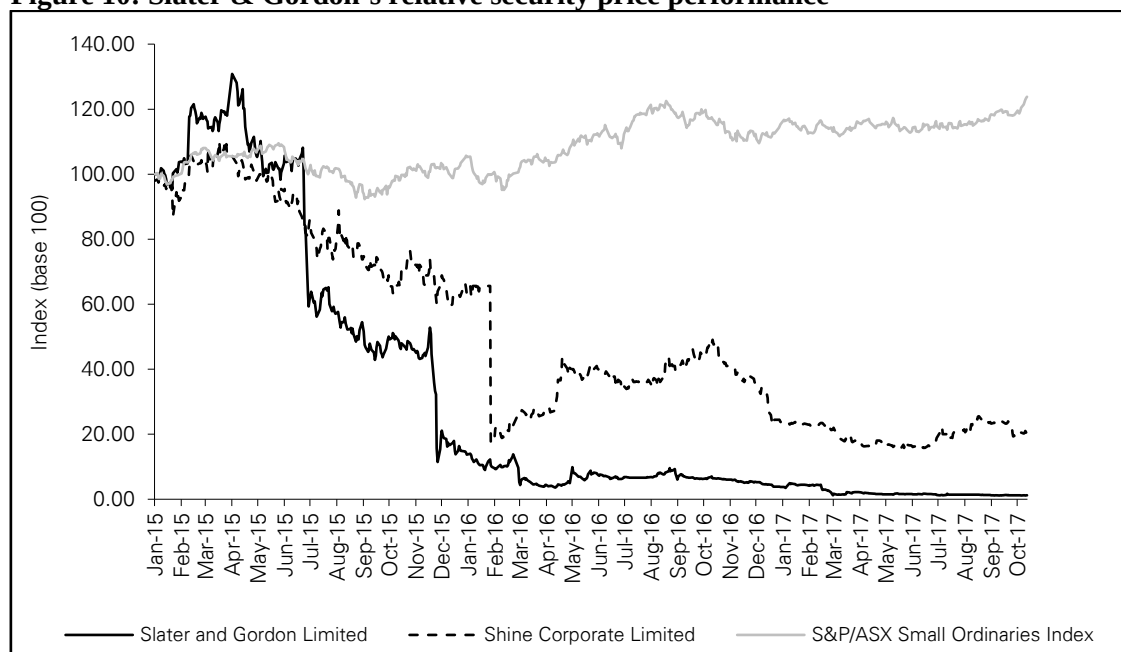
debt materially exceed total enterprise value and that the Company requires a holistic restructuring of its balance sheet.” The Company also advised that it has entered into an amended binding RSD with 100 percent of its Senior Lenders in relation to the Recapitalisation. The revised terms of the Recapitalisation will provide additional liquidity support required for Slater & Gordon’s continued operation prior to the implementation of the Recapitalisation and to fund the business plan thereafter. It will also deliver the substantial debt reduction that was a feature of the original proposal. The share price closed at \$0.08 followed by an intra-day low of \$0.07 on 1 September 2017

28. 12 September 2017 – Slater & Gordon released its proposed transformation plan, including cost reductions and structural changes and began the process of consultation with impacted employees. A number of office locations nationally are impacted and approximately 7 percent of Australian employees are impacted
29. 21 September 2017 – Slater & Gordon announced it had entered into a binding agreement in relation to the Hall Proceeding, in which the settlement terms remain consistent with those outlined in the in principle agreement announced to the ASX on 11 July 2017. The terms are subject to approval by the Federal Court.

9.9.2 Relative performance

The figure below illustrates Slater & Gordon’s security price trading performance relative to the Small Ordinaries and Shine (ASX: SHJ) between 1 January 2015 and 13 October 2017.

Figure 10: Slater & Gordon’s relative security price performance



Source: Iress, S&P Capital IQ, KPMG Corporate Finance analysis.

In relation to the figure we note:

- from 1 January 2015 to 7 April 2015, Slater & Gordon appreciated 28 percent while the Small Ordinaries appreciated 5 percent and Shine appreciated 7 percent. The announced acquisition of PSD on 30 March solidified Slater & Gordon as one of the top 100 largest companies in Australia, pushing Slater & Gordon into the S&P/ASX 100 Index
- following subsequent events and announcements surrounding the performance of and investigations into Quindell and ultimately, Slater & Gordon, its share price fell 56 percent during the 7 April 2015 to 9 July 2015 period. Over the same time period, the Small Ordinaries Index declined 6 percent and Shine decreased 26 percent
- Slater & Gordon continued to underperform relative to the index, with share price falling 97 percent from 9 July 2015 to 11 April 2017. In comparison, Small Ordinaries appreciated 18 percent over the same period. Shine also underperformed during the period declining 79 percent. The Slater & Gordon share price displayed significantly greater volatility relative to the index which is not uncommon given the enhanced diversification of an index when compared to a single company. Shine experienced a similar share price decline to Slater & Gordon as a result of their review of WIP recovery rates materially impacting their FY16 EBITDA guidance.

9.9.3 Liquidity

Set out in the table below is an analysis of the periodic VWAPs and liquidity of Slater & Gordon's shares for the 12 month period prior to and including 16 March 2017.³⁶ The table below summarises the liquidity of Slater & Gordon securities and summarises an analysis of the volume of trade in the Company's shares on the ASX.

Table 13: VWAP and liquidity analysis – period prior to and including 16 March 2017

Period	Price (low) \$	Price (high) \$	Price VWAP \$	Cumulative value \$m	Cumulative volume m	% of issued capital
1 week	0.08	0.09	0.09	1.9	21.1	6.0
1 month	0.07	0.20	0.11	31.5	294.0	83.4
3 months	0.07	0.33	0.15	65.6	428.7	121.7
6 months	0.07	0.44	0.19	104.1	539.2	153.0
12 months	0.07	0.68	0.34	468.8	1,394.9	395.9

Source: Iress, S&P Capital IQ, KPMG Corporate Finance analysis.

With regard to the table above, we note the following:

- Slater & Gordon's shares have exhibited very high liquidity over the 12 months to, and including, 16 March 2017, with total shares traded 4.0 times total shares on issue in the last 12 months and 1.5 times total shares on issue in the last 6 months to 16 March 2017

³⁶ Note: for, '1 week' means five days prior to and including 16 March 2017. On 17 March 2017, Slater & Gordon entered into discussions regarding restructuring options in relation to its debt facilities.

- the VWAP declined from \$0.34 over the full 12 month period to \$0.09 in the last week.

We note that given the percentage of issued capital that traded over the 12 month period prior to 16 March 2017, the Company's liquidity was relatively high. In the week leading up to 16 March 2017, this liquidity has declined, with only 6 percent of issued capital trading.

Since the proposed recapitalisation was announced, Slater & Gordon's share liquidity reduced. The table below sets out an analysis of the periodic VWAPs and liquidity of Slater & Gordon's shares for the period 17 March 2017 to and including 12 October 2017.

Table 14: VWAP and liquidity analysis – period prior to and including 12 October 2017

Period	Price (low) \$	Price (high) \$	Price VWAP \$	Cumulative value \$m	Cumulative volume m	% of issued capital
1 week	0.07	0.07	0.07	0.4	6.3	1.8
1 month	0.07	0.08	0.07	1.6	22.7	6.5
3 months	0.07	0.11	0.08	8.2	102.2	29.4
6 months	0.07	0.13	0.09	26.1	290.6	83.4
17 Mar 17 to 12 Oct 17	0.07	0.14	0.09	29.5	318.4	91.3

Source: Iress, S&P Capital IQ, KPMG Corporate Finance analysis.

With regard to trading in the period since 16 March 2017, we note the following:

- the volume of shares traded over the 6 month period prior to 12 October 2017 of 83.4 percent is significantly lower than in the 6 month period prior to 16 March 2017 (1.5 times). Although the volume of Shares traded over this period suggests the shares are liquid, we note the following:
 - Slater & Gordon's investor base comprises primarily retail shareholders (with no shareholders as at 30 June 2017 holding more than 2.1% (refer to Table 11))
 - trading involved primarily small parcels of shares (the average value of a parcel traded since 17 March 2017 is \$1,256)
 - Slater & Gordon is not covered by brokers
- the VWAP declined from \$0.09 over the six month period to \$0.07 in the last week of the period.

10 Solvency Analysis

We have considered the solvency of Slater & Gordon immediately before and following the Recapitalisation of which the Senior Lender Scheme is a principal component.

It is our opinion that Slater and Gordon is at risk of becoming insolvent in the absence of ongoing lender support. The Company will not have sufficient cash flow to meet its ongoing interest payments and repay the first three tranches of senior debt which fall due for repayment in May 2018.

Immediately following implementation of the Senior Lender Scheme, Slater & Gordon will be solvent. Our opinion is based on the following:

- **Substantial Debt Reduction:** Outstanding secured debt will be permanently reduced by a combination of changes to, and restatement of, a portion of the debt and release of the remaining debt. The new secured debt facilities will be as follows:
 - the collective of individual secured lenders (New Lenders Group) have provided the Company with additional support in the form of a \$40 million working capital facility of which, as at 30 June 2017, \$15 million has been drawn
 - new additional Super Senior Incremental Facilities of \$50 million split between the UK and Australian operations
 - amounts owing by Slater & Gordon under the SFA will be refinanced under the Restated SFA, totalling \$60 million post-implementation of the Senior Lender Scheme
 - non-recourse UK Convertible Notes up to £250 million in respect of the net proceeds of claim and insurance proceeds related to the UK Company's Watchstone claim
- **Covenant Support:** the financial covenants agreed with the New Lending Group are intended to provide ongoing financial stability with only a minimum cash balance requirement
- **Interest Capitalisation:** each of the facilities entered into under the Recapitalisation will have interest accrued and capitalised for the term of the facility allowing the Company to utilise cash to improve performance and execute the turnaround strategy.

The ability of Slater & Gordon to remain solvent is predicated on its ability to achieve its turnaround strategies, rebuild its brand and manage the risks.

10.1 Approach

In determining solvency, the ability of Slater & Gordon to pay its debts as and when they fall due has been considered before and immediately after the Recapitalisation. We have undertaken this assessment with reference to the definition of solvency set out in Section 95A of the Corporations Act and common law principles (Appendix 7 of this report).

Section 95(A) of the Corporations Act defines a solvent person as ‘A person is solvent if, and only if, the person is able to pay all (our emphasis) the person's debts, as and when they become due and payable.’ A person who is not solvent is insolvent.

When considering solvency it is our view that you must consider the length of time that encompasses all debts whether immediate, future or contingent that the company is obligated to pay and therefore you must look as far ahead as is considered reasonably reliable.

The company's ability to pay all its debts should be determined by reference to the actual circumstances of the company. Determining whether a company is solvent predominantly involves applying a cash flow test supported by the context of the company's balance sheet position and the commercial realities confronted by the company at the time. This requires realistically assessing whether the company's anticipated current and future cash flows will be sufficient to enable current and future liabilities to be paid as and when they fall due for payment.

When considering anticipated current and future cash flows it is appropriate to consider resources other than cash that the company might have at its disposal such as saleable assets, capacity to raise capital through equity or secured and unsecured borrowings.

The Company has not released any recent prospective financial information to the market and accordingly, for the purpose of considering whether, immediately following the implementation of the Recapitalisation, Slater & Gordon will be solvent the following represents an overall summary of the approach taken:

- a consideration of the pro forma historical cash flow as a proxy for forecast cash flows
- a consideration of the pro forma trading performance as a proxy for forecast trading performance
- a consideration of the financial position of Slater & Gordon as at 30 June 2017
- an assessment of any adjustments that ought to be made to the financial statements of Slater & Gordon in order to properly assess liquid assets, current assets and liabilities and net assets, including a consideration of any valuation reports concerning asset values
- a consideration of any unused sources of finance available, assets available for sale, and existing arrangements with principal financiers
- a consideration of the information provided by the Directors and Management
- financing analysis including facility agreements, drawn and undrawn facilities, and debt amortisation requirements
- ability to raise equity
- other considerations, including
 - litigation
 - audit opinions, and the basis of going concern assumptions.

Further details of our approach and methodology are contained in Appendix 7 of this report.

10.2 Primary test – cash flow

10.2.1 Overview

We have considered the ability of Slater & Gordon to meet its debts as and when they fall due having regard to the pro forma cash flows of the Company on the basis that the Recapitalisation is approved and also if the Recapitalisation was not approved.

The Company has released the following commentary as part of Note 1.1 of its financial statements for the year ended 30 June 2017:

“The Group will not have sufficient free cash flow to pay interest and repay the facilities in May 2018, or earlier, accordingly, the Group requires the ongoing support of its lenders to continue as a going concern.”

We have analysed the historical cash flows on a pro forma basis in order to consider the ability of Slater & Gordon to meet its debts as and when they fall due. In considering the pro forma cash flows we have analysed the following sources of information:

- historical cash flows for the periods ended 30 June 2013 to 30 June 2017
- adjustments to the historical cash flows to reflect the impact of significant items
- the current financial arrangements and debt maturity profile
- the SFA dated 29 May 2015
- restated SFA dated 23 December 2016 and subsequent amendment dated 31 March 2017
- the proposed debt profile following the Recapitalisation.

We have also met with Management to discuss the current trading performance.

10.2.2 Observations on the pro forma cash flow – Pre-Recapitalisation

Table 15 sets out the historical pro forma Cash Flow Available for Debt Service (CFADS) of Slater & Gordon for the 12 months ended 30 June 2013, 30 June 2014, 30 June 2015, 30 June 2016 and 30 June 2017, being the latest financial information available.

Table 15: Historical pro forma cash flow available for debt service

Period					
\$million unless otherwise stated	FY13	FY14	FY15	FY16	FY17
Operating cash flow	32.7	54.4	40.8	(104.2)	(39.1)
Gross operating cash flow ¹	39.1	67.4	53.4	(92.5)	(43.8)
Normalised CFADS before tax	32.7	54.4	56.0	(57.6)	10.2

Source: Company Annual Reports and Presentations, KPMG Corporate Finance analysis

Note: 1. Gross operating cash flow is defined as net cash (utilised)/provided by operating activities before interest received, borrowing costs paid, income tax paid and payments to former owners.

In regards to the above, we note:

- normalised CFADS before tax ranged from \$32.7 million to \$56.0 million before the PSD acquisition. Following the PSD acquisition, normalised CFADS decreased to negative \$57.6 million in FY16 and has improved to \$10.2 million in FY17
- the Company commenced an organisational restructure and a turnaround strategy at the end of FY16 which is expected to run until they are completed in FY20
- to normalise the operating cash flow we have adjusted the cash flow for non-recurring restructuring costs and consultancy fees related to the restructure
- to date, the turnaround strategy have been focused on working capital and cost-out initiatives (such as cost savings from a reduction in headcount, reduction in real estate footprint, marketing and IT service costs). In the future, the turnaround strategy will shift towards productivity initiatives (including integrating and streamlining of systems and processes, investments in technology, and improving staff engagement to increase productivity).

In the table below, we have assessed the CFADS of Slater & Gordon against its debt service obligations adopting the following assumptions:

- we have adopted the following CFADS scenarios to ensure we adequately consider the range of possible outcomes:
 - o Low: the Company continues to perform in line with FY17 performance
 - o Mid: the Company will return to its FY13 level of performance of \$32.7 million per annum (ie its performance prior to the PSD acquisition, which implicitly assumes PSD is cash flow neutral)
 - o High: the Company will increase to its FY15 level of performance of \$56.0 million, being its record level of performance. This is higher than maintainable EBITDA (as set out in further detail in Section 11.4) and therefore allows for some performance improvement
- the Recapitalisation is unlikely to affect the Company's current tax position
- the first tranches of debt mature in May 2018 when approximately \$431.3 million becomes due. As a result, we have considered an analysis of CFADS for an 11 month period

- as at 30 June 2017, Slater & Gordon had drawn facilities, excluding derivative financial instruments, of \$780.9 million (net: \$747.7 million) and net finance costs for the year ended 30 June 2017 were \$50.7 million, including \$9.6 million of non-recurring finance costs. Normalised financing costs were \$41.1 million for the 12 months ended 30 June 2017. We have assumed this level of annual interest expense for the purposes of our analysis (which equates to approximately 5.6 percent per annum).

Table 16: Pro forma cash balance as at 31 May 2018

\$million unless otherwise stated	Low	Mid	High
Cash flow from operating activities			
CFADS before tax	10.2	32.7	56.0
Pro forma interest expense	(42.2)	(42.2)	(42.2)
Annual CFADS less interest expense	(32.0)	(9.5)	13.8
Pro forma cash balance at 31 May 2018			
Cash balance as at 30 June 2017	33.3	33.3	33.3
11 months of CFADS less pro forma interest expense	(29.3)	(8.7)	12.6
Debt maturity (May 2018)	(431.3)	(431.3)	(431.3)
Pro forma Surplus / (deficit)	(427.4)	(406.7)	(385.4)

Source: Company Annual Reports and Presentations, KPMG Corporate Finance analysis

Note: Tables may not add due to rounding.

Under the scenarios above, the Company would not be able to repay the debt maturing in May 2018 from its own cash reserves.

As such, it is necessary to also consider whether the Company would be able to repay the debt by refinancing with new lenders. In this respect we note that the SFA included the following debt covenants:

- a minimum interest coverage ratio (EBITDA / interest expense) of 2.75x
- a maximum leverage ratio (Net debt / EBITDA) no greater than 2.95x at the commencement of the facility, reducing to 2.25x after three years.

Whilst these covenants were removed as part of a series of addendums to the SFA, in our view, they represent a guide as to what an incoming lender would likely require in the event of refinancing the Company's debt. Given the nature of the recent performance, in our view it is also reasonable to consider that an incoming lender may require stricter covenants.

In the table below, we have calculated the level of EBITDA required to be achieved by the Company in order to maintain its existing debt levels and meet the above covenants.

Table 17: EBITDA required to meet covenants

\$million unless otherwise stated	
Interest coverage ratio	
Estimated annual interest expense	42.2
Minimum interest coverage ratio	2.75x
Implied EBITDA required	116.1
Leverage ratio	
Net debt as at 30 June 2017	747.6
Maximum leverage ratio	2.25x
Implied EBITDA required	332.3
EBITDA required to meet both covenants	332.3

Source: Syndicated Facility Agreement, Company Annual Reports and Presentations, KPMG Corporate Finance analysis.

The level of EBITDA required to meet the above banking covenants would be approximately \$332.3 million if the Company were to maintain its existing debt levels. In our view, given the historical track record of the Company and its current operational challenges, this level of EBITDA cannot be achieved by May 2018 when the first tranches of debt fall due. In this regard, the Company is unlikely to be able to refinance its debt.

10.2.3 Observations on the pro forma cash flow – Post-Recapitalisation

Table 18 below sets out the pro forma cash flow of the Company assuming the Recapitalisation is approved.

The pro forma cash flow assuming the Recapitalisation is approved adopts the same operational assumptions as the pro forma cash flow assuming the Recapitalisation is not approved, but with the new financial arrangements in place.

The Post-Recapitalisation financial arrangements are set out in the table below.

Table 18: Post-Recapitalisation Financial Arrangements

\$'000	Functional Currency	GBP Face value	AUD	Total (AUD) ¹	Interest rate (PIK)	Interest frequency	Term	Covenants
Australian New Super Senior Facility ²	AUD		65,000	65,000	BBSY + 10%	PIK at 6 months capitalised and added to principle	3 years	Minimum balance of \$2.5 million
UK New Super Senior Facility ²	GBP	14,780	25,000	25,000	BBSY + 10%	PIK at 6 months capitalised and added to principle	3 years	Minimum cash balance of £2.5 million
Restated Facility ³	AUD		60,000	60,000	BBSY + 2%	PIK at 6 months capitalised and added to principle	5 years	None
Convertible Note Facility ⁴	AUD		84,574	84,574	0%	N/A	5 years	None
Total facilities				234,574				

Source: Management

Note: 1. As at 30 June 2017. Assumed GBP: AUD of 0.5912

2. The New AUD Super Senior Facility comprises \$40 million of facilities already provided and an additional \$25 million facility. The Super Senior GBP Incremental Facility is a \$25 million facility equivalent in GBP

3. The restated facility represents the residual of the existing SFA amended to reflect a debt of \$60 million

4. The Convertible Note relates to the UK business only and includes mandatory repayment of any monies recovered from the Watchstone-related claims - \$84.6 million reflects the A\$ equivalent of the £50 million held in escrow in relation to those claims.

The estimated annual interest expense immediately following the restructure and resulting pro forma cash flow post restructure is set out below.

Table 19: Pro forma cash flow available for debt service – Post-Recapitalisation

\$million unless otherwise stated	Low	Mid	High
Cash flow from operating activities			
CFADS before tax	10.2	32.7	56.0
Interest expense	(0.5)	(0.5)	(0.5)
Annual CFADS less interest expense	9.8	32.3	55.5

Source: Company Annual Reports and Presentations, KPMG Corporate Finance analysis

Note: 1. Tables may not add due to rounding.

2. Interest expense relates to interest on obligations under hire purchase

The table above illustrates the Company is expected to have sufficient cash flow to meet its debt service obligations following the Recapitalisation.

Key risks to the ability of the Company to meet its debt service obligations following the Recapitalisation relate to:

- the ability of the Company to achieve any of these scenarios of CFADS will be affected by:

- o the number of new cases opened
- o level of case intake volumes, average fee per case, dilution rates, file velocity, success rates and costs per case
- o successful execution of the reorganisation and the turnaround strategy
- o successfully resolve project litigation (NWNF)
- o the level of NIHL cases settled which can be impacted by negative counterparty behaviour and case limitation dates
- o the availability of After the Event (ATE) disbursement funding.

Furthermore, the low, mid and high scenarios assume:

- no adverse financial impact of the Shareholder Claimant Scheme and Watchstone claim
- no further changes in legislation governing the Group
- no action by Australian or UK regulators.

The business has faced several challenges executing the turnaround strategy, most notably staff dis-engagement, unplanned attrition, difficulties filling some roles, and a disparity of legacy systems and processes impacting the timing of several initiatives. This, together with the publicity of the Company's challenges negatively affecting the brand and adverse counterparty behaviour, has resulted in the Company continuing to underperform Management's expectations, particularly in regards to case resolution levels. Whilst the Company has detailed plans to address these challenges (including improved career planning and learning and development programs to improve staff engagement), in our view, the timing and quantum of benefits from the turnaround strategy and recovery of the brand / improvement in counterparty behaviour remains uncertain.

10.3 Indicative Test – Balance Sheet Test

10.3.1 Overview

We have also considered the consolidated statement of financial position of Slater & Gordon before and after the Recapitalisation to assist with forming a view on the solvency of the Group. This test is to be viewed as indicative only as it represents the financial position of the Company at a single point in time and does not consider the ability of the Company to generate future profits or cash flows available for debt servicing.

We have analysed the latest consolidated statement of financial position available being 30 June 2017.

10.3.2 Statement of financial position as at 30 June 2017

Table 120 sets out the statement of financial position of the Company as at 30 June 2017, pro forma adjustments and pro forma statement of financial position assuming the Recapitalisation is approved.

Table 20: Pro forma statement of financial position as at 30 June 2017

\$million unless otherwise stated	Pre Recapitalisation	Pro forma Adjustments	Post Recapitalisation AUS	Post Recapitalisation UK
Assets				
<i>Current assets</i>				
Cash and cash equivalents	33.3	0.0	8.3	25.0
Receivables	395.5	0.0	79.1	316.4
Work in progress	294.9	0.0	113.5	181.4
Current tax assets	0.0	0.0	0.0	0.0
Other current assets ¹	21.1	5.2	10.8	15.6
Total current assets	744.8	5.2	211.6	538.3
<i>Non-current assets</i>				
Property, plant and equipment	26.6	0.0	11.2	15.3
Receivables	91.5	0.0	28.4	63.1
Work in progress	220.1	0.0	127.2	92.9
Intangible assets ²	13.1	10.0	0.0	23.1
Deferred tax assets	34.7	0.0	26.3	8.4
Other non-current assets	0.5	0.0	0.5	0.0
Total non-current assets	386.5	10.0	193.7	202.8
Total assets	1,131.3	15.2	405.3	741.2
Liabilities				
<i>Current liabilities</i>				
Payables ³	(418.6)	23.0	(47.9)	(347.7)
Short term borrowings ⁴	(466.2)	464.4	(1.8)	0.0
Current tax liabilities	(8.2)	(0.0)	(2.9)	(5.3)
Other current liabilities	(1.8)	(0.0)	(0.0)	(1.8)
Provisions	(54.5)	(0.0)	(36.2)	(18.3)
Total current liabilities	(949.5)	487.4	(88.8)	(373.2)
<i>Non-current liabilities</i>				
Long term borrowings ^{5, 6}	(314.7)	126.8	(103.3)	(84.6)
Deferred tax liabilities	(93.4)	(0.0)	(93.4)	(0.0)
Derivative financial instruments	(1.4)	(0.0)	(0.9)	(0.5)
Provisions	(21.2)	(0.0)	(9.1)	(12.0)
Total non-current liabilities	(430.7)	126.8	(206.7)	(97.1)
Total liabilities	(1,380.1)	614.3	(295.5)	(470.3)
Net assets	(248.8)	629.5	109.8	270.8
Equity				
Total equity attributable to equity holders in the Company	(248.6)	629.5	109.8	271.0
Non-controlling interest	(0.2)	0.0	0.0	(0.2)
Total equity	(248.8)	629.5	109.8	270.8

Source: Management

- Notes:
1. The pro-forma adjustment relates to the prepayment of the commitment fee in relation to the new working capital facilities
 2. The pro-forma adjustment relates to the sale of the intellectual property by the Australian entity to the UK entity, offset against \$10.0 million of intercompany debt
 3. The pro-forma adjustment relates to the payment of Scheme costs partially funded through the Super Senior advance of \$40 million

4. Short term borrowings are converted to long term borrowings other than lease commitments
5. Long term borrowings includes \$3.3 million of lease liabilities
6. All borrowings are considered by the company to be non-current
7. Tables may not add due to rounding.

As at 30 June 2017 the Company had a current ratio of approximately 0.8x and current liabilities exceeded current assets by \$204.7 million, implying the Company has insufficient liquidity to meet its short term needs. The Company's total liabilities exceeded its total assets by \$248.8 million, with near term borrowings begin to mature from May 2018, indicative of liquidity concerns arising within the next 12 months.

If the Recapitalisation is approved, total assets are expected to exceed total liabilities by \$380.7 million.

From the perspective of creditors, on a Pre-Recapitalisation basis, debt of \$780.9 million comprises (refer to Table 20):

- long term borrowings of \$314.7 million
- short term borrowings of \$451.2 million
- super senior facility of \$15.0 million

From the perspective of creditors, on a Post-Recapitalisation basis, debt of \$189.7 million comprises (refer to Table 20):

- long term borrowings of \$60.0 million
- working capital facility of \$40.0 million
- non-current lease liabilities of \$3.3 million
- current lease liabilities of \$1.8 million
- convertible notes with an estimated value of \$84.6 million for accounting purposes.

10.4 Indicative Test – Profit and Loss

10.4.1 Overview

Profit and loss is an indicator of solvency only, as it:

- does not show the cash flow arising from the financial performance
- may be influenced by particular accounting policies (such as the recognition and valuation of work in progress and estimates of depreciation)
- excludes investments required to maintain operations
- does not show changes in the capital structure (such debt refinancings / amortisation or equity distributions / raisings).

10.4.2 Pro forma financial performance Pre-Recapitalisation

We have analysed the pro forma financial performance of the Company assuming the Recapitalisation is not approved below.

The Company has not released any prospective financial information. In this respect, we have adopted the following pro forma profit and loss scenarios to ensure we adequately consider the range of possible outcomes:

- Low: the Company continues to perform in line with its adjusted Last Twelve Months (LTM) trading performance
- Mid: based on the lower end of assessed maintainable EBITDA (adopted for the purposes of the Valuation as set out in Section 11 of this report)
- High: based on the higher end of assessed maintainable EBITDA (adopted for the purposes of the Valuation as set out in Section 11 of this report).

Table 21: Pro forma profit and loss Pre-Recapitalisation

\$million unless otherwise stated	Low	Mid	High
EBITDA	(127.9)	52.2	58.9
Depreciation	(11.2)	(11.2)	(11.2)
EBIT (before significant items)	(139.2)	41.0	47.7
Pro forma Interest expense (net)	(42.2)	(42.2)	(42.2)
Pro forma Net Profit / (Loss) Before Tax	(181.4)	(1.2)	5.5

Source: Slater & Gordon Annual Reports, presentations and KPMG Corporate Finance analysis

Note: Tables may not add due to rounding.

Under the above scenarios, the Company would not generate sufficient EBIT to cover its interest expense. We note this analysis excludes the impact of principal repayments (including those due in May 2018).

10.4.3 Pro forma financial performance Post-Recapitalisation

The pro forma financial performance assuming the Recapitalisation is approved adopts the same operational scenarios as the pro forma financial performance assuming the Recapitalisation is not approved, but with the new financial arrangements in place.

Table 22: Pro forma profit and loss Post-Recapitalisation

\$million unless otherwise stated	Low	Mid	High
EBITDA	(127.9)	52.2	58.9
Depreciation	(11.2)	(11.2)	(11.2)
EBIT (before significant items)	(139.2)	41.0	47.7
Pro forma interest expense (net) post Recapitalisation	(0.5)	(0.5)	(0.5)
Pro forma Net Profit / (Loss) Before Tax	(139.6)	40.5	47.2

Source: Slater & Gordon Annual Reports, presentations and KPMG Corporate Finance analysis

Note: Tables may not add due to rounding.

If the Company was to continue to incur losses similar to those in FY2017, the Company would not generate sufficient EBIT to cover its costs. Under the mid and high scenarios, the analysis indicates that the Company would, in the absence of other factors, be able to meet its obligations.

10.5 Other solvency considerations

10.5.1 Debt obligations and covenants

A description of the Pre-Recapitalisation financial arrangements is set out in Table 23 below.

Table 23: Pre-Recapitalisation Financial Arrangements

\$'000	Functional Currency	GBP Drawn	AUD Drawn	Capitalised interest AUD	Total (AUD) ¹	Interest rate ²	Maturity
Tranche							
GBP multicurrency facilities							
Tranche A	GBP	157.5		10.7	277.1	LIBOR	29-May-18
Tranche B	GBP	157.5		12.6	279.0	LIBOR	31-Mar-19
Tranche C	GBP	47.0		3.8	83.3	LIBOR	29-May-18
Capitalised Fees	AUD				(1.2)		
Deferred Establishment Fee	AUD				3.6		
Liability							
AUD multicurrency facilities							
Tranche C	AUD		24.3	1.5	25.8	BBSY	29-May-18
Tranche D	AUD		45.0	2.6	47.6	BBSY	31-May-19
Tranche E	AUD		45.0	0.1	45.1	BBSY	29-Mar-18
Super Senior Facility	AUD		15.0		15.0	BBSY	
Lease liabilities	AUD				5.1		
Capitalised fees	AUD				0.5		
Total facilities					780.9		

Source: Management

Note: 1. As at 30 June 2017. Assumed GBP/AUD of 0.5912. As at 30 June 2017 total drawn facilities were \$780.9 million
2. Additional margin applied on interest rate.

This amount includes \$31.4 million of interest which was capitalised at 30 June 2017.

The Post-Recapitalisation financial arrangements are set out in Table 18 and will result in a substantial debt reduction.

10.5.2 Audit opinions

EY was Slater & Gordon's auditor for the year ended 30 June 2017. EY issued an unqualified audit opinion and included the following paragraph in its audit report.

“Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to Note 1.1 in the financial report which indicates that the consolidated entity incurred a net loss after tax of \$546.8 million, negative net

cash flow from operating activities of \$39.1 million and, as at 30 June 2017 the Group's total liabilities exceeded its total assets by \$248.8 million. The note also details that the Group's Syndicated Facility Agreement is fully drawn, with \$450.2 million of the drawings repayable in May 2018 in accordance with the agreement.

Note 1.1 describes the conditions that raise uncertainty regarding the consolidated entity's ability to continue as a going concern. It details uncertainties relating to cash flows which will not be sufficient to repay a portion of the Group's consolidated entity's borrowing facilities of \$450.2 million due in May 2018, or earlier, if that was required. It also details that the Group has reached agreement with its lenders to provide additional liquidity support required for it to remain able to pay debts as and when they fall due through to the proposed date of the recapitalisation of the Group and also details the consolidated entity's reliance on the recapitalisation and the ongoing support of its lenders to continue as a going concern.

Note 1.1 references Note 5.2 and Note 8 that detail the recapitalisation agreement entered into by the Group with its lenders and the settlement of shareholder class actions that both remain subject to conditions precedent and approvals as detailed in Note 5.2 and Note 8.

These conditions along with other matters as set forth in Note 1.1 indicate the existence of material uncertainties that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, whether the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern."

10.5.3 Disbursement funding

In addition to the financial arrangements above, the Company operates a disbursement funding facility with EAFP within the Australian PI business. Under the terms of this facility, EAFP is repaid the principal and interest on disbursement funding by the client for successful cases. In the event the case is not successful, Slater & Gordon provide a guarantee over the principal and EAFP writes off the interest. The EAFP Disbursement Funding facility was \$16.0 million as at 30 June 2017.

The Company is in the process of establishing disbursement funding for ATE cases in the UK. This new stream of funding is expected to provide the funder with recourse back to a third party policy as opposed to a Slater & Gordon guarantee.

10.5.4 Litigation

As mentioned previously, Slater & Gordon is subject to a shareholder class action lawsuit. Maurice Blackburn is representing Shareholders for legal proceedings filed 12 October 2016 against Slater & Gordon in the Federal Court of Australia (the Hall Proceeding). The Hall Proceeding seeks compensation for damages suffered from misleading and deceptive conduct

by Slater & Gordon, claiming it breached its continuous disclosure obligations for the period from 30 March 2015 to 24 February 2016.

On 21 September 2017, the Company announced it had signed a binding agreement to settle the class action lawsuit. The binding settlement will also resolve all potential shareholder claims and will be implemented via the Shareholder Claimant Scheme and is subject to approval by the Federal Court. The terms of the binding agreement provide for a \$32.5 million Scheme Fund (for Shareholder Claimants) comprising funds from responsive directors and officers liability insurance policies with an additional \$4.0 million drawn down from the Super Senior AUD Incremental Facility and made available to Hall Proceeding Claimants. If the Shareholder Claimant Scheme and Hall Proceeding are not resolved, this may create additional liability for Slater & Gordon adding to its debt burden.

10.5.5 Ability to raise equity

Given the level of debt, in our view there would be limited ability to raise additional equity in the absence of the Recapitalisation. Slater & Gordon does not hold any instruments in its capital structure which would give it the right to call up partially paid capital or convertible instruments.

10.6 Conclusion on solvency

It is our view that Slater & Gordon is at risk of becoming insolvent at some future time without the continued support of its lenders and at the latest by May 2018 when the first three tranches of the SFA fall due as the Company and its subsidiaries (including its UK operations) will be unlikely to be able support this level of debt and successfully refinance.

We are of the opinion that the Company will be solvent immediately following the implementation of the Recapitalisation as:

- the Company's CFADS is expected to be sufficient to cover its debt service obligations
- the Company's balance sheet will be in a positive net asset position following implementation of the Recapitalisation
- the Company is expected to generate positive EBIT and net profit before tax under the mid and high scenarios.

The low scenarios are based on the performance for the year to 30 June 2017 which only partially benefits from the reorganisation and the turnaround strategy. In this regard, the low scenarios do not represent base cases or best estimate assumptions, however, they do demonstrate the challenges remaining Post-Recapitalisation and the requirements for sustainable and substantial improvements to the underlying operations.

We highlight that the solvency of the Company remains dependent on the Company improving its underlying financial performance which includes achieving project litigation revenue, successfully executing the reorganisation and turnaround strategy, improving staff morale, complying with banking covenants, and experiencing no adverse external impacts on the businesses (such as changes in legislation and/or regulatory intervention).

11 Valuation of Slater & Gordon

11.1 Overview

We have assessed whether the Recapitalisation is fair by comparing the value of a Share prior to the Recapitalisation on a controlling basis to the value post the Recapitalisation on a non-controlling basis as at the Implementation Date.

This section sets out our assessment of the underlying value of Shares prior to the Recapitalisation (inclusive of a premium for control), and after the Recapitalisation (exclusive of a premium for control) as at the Scheme Implementation Date. When assessing the value of 100 percent of Slater & Gordon's equity, we have considered those synergies and benefits which would generally be available to a pool of hypothetical purchasers. We have not included the 'special value', or the value of synergies specific to a particular acquirer, in this case the Senior Lenders. Accordingly, our valuation of a Share has been determined regardless of the acquirer.

We have also had consideration of the impact of the Recapitalisation upon Shareholders, notably that the Pre-Recapitalisation value of Slater & Gordon is based upon the value of the Australian and UK operations combined, whilst the Post-Recapitalisation value only incorporates the value of the Australian operation, as the UK operations are transferred to UK HoldCo (which will be wholly owned by the Senior Lenders following the Recapitalisation) as a consequence of the Recapitalisation.

We recognise the difficulty in determining an appropriate value for Slater & Gordon as a result of its recent performance. In this regard, we have valued Slater & Gordon as a going concern, which implicitly assumes that existing debt arrangements would continue or be refinanced. While we have not considered the financial distress of the Company in assessing the enterprise value, consistent with the requirements of RG 111, we note that the current level of debt pre-Recapitalisation is unsustainable and exceeds the enterprise value and, therefore, the ability of the Company to continue to trade and avoid a breach of the SFA and other finance documents is limited in the current structure (refer to Section 10 of this report). We note the value of the Company would be less where existing financial distress was considered.

Pre-Recapitalisation

As noted in Section 4, we have based our valuation on a capitalisation of earnings approach. Under this approach, KPMG Corporate Finance estimates the enterprise value of Slater & Gordon prior to the Recapitalisation to be in the range of \$208.8 million to \$294.5 million on a control basis.

Table 24: Pre-Recapitalisation analysis

\$ million	Report Section	Value range Pre-Recapitalisation	
		Low	High
Adopted maintainable revenue	11.4.1.1	580.0	620.0
Maintainable business margin (EBITDA)	11.4.1.2	9.00%	9.50%
Maintainable earnings (EBITDA)		52.2	58.9
EBITDA multiple (on a controlling basis) (times)	11.4.2	4.0x	5.0x
Enterprise value of Slater & Gordon		208.8	294.5
Less: total debt as at 30 June 2017	11.6.1	(782.4)	(782.4)
Surplus assets: Watchstone claim amount		-	73.1
Implied equity value of Slater & Gordon		(573.6)	(414.7)
Issued shares (million) as at 30 June 2017	11.6.3	347.2	347.2
Implied equity value per share on a controlling basis (\$)		(1.652)	(1.194)
Assessed equity value per share on a controlling basis (\$)		nil	nil

Source: Slater & Gordon Management, Annual Reports and Half Year Reports, KPMG Corporate Finance analysis

Note: 1. Tables may not add due to rounding

2. GBP/AUD exchange rate of 1.63093 as at 1 September 2017 adopted.

In relation to the above table, we note:

- the enterprise value of Slater and Gordon was determined using a capitalised earnings approach, based on a maintainable EBITDA of \$52.2 million to \$58.9 million and a capitalisation multiple of 4.0x to 5.0x
- the maintainable EBITDA range is based on an assessed revenue for Slater & Gordon, which it may be able to achieve in the near term, and a maintainable EBITDA margin, which the business may be able to achieve in the short to medium term. The EBITDA margin is determined with reference to Slater & Gordon's historical financial performance, earnings margins of comparable businesses and our assessment of the cost structure of an "efficient business" that operates in the professional legal industry. The basis for each of these assumptions is discussed in Section 11.4.1 of this report
- the selected EBITDA multiple range includes a control premium of 20 percent and, therefore, the enterprise value of Slater and Gordon's business operations has been determined on a controlling basis. We note that the risks and costs associated with implementing performance improvements, notwithstanding its distressed nature, is captured within the selected range. The selected EBITDA multiple range and control premium are discussed respectively in Section 11.4.2 of this report
- equity value has been calculated by deducting the value of total debt from the enterprise value. Total debt is used as opposed to net debt as all of Slater & Gordon's cash balance is expected to be required for working capital purposes. The calculation of total debt is discussed further in Section 11.6.1 of this report
- equity value has been calculated by including the contingent surplus asset in respect of the Watchstone claim relating to the acquisition of Quindell's PSD, in which the potential outcome and value of the claim are unknown at this time. We note that the impact of the claim on the Pre- and Post-Recapitalisation value differs, as Shareholders' exposure to any

potential damages awarded is different under each scenario. This is discussed in more detail in Section 11.6.2

- equity value per Share has been calculated based on the fully diluted number of Shares on issue as at 30 June 2017. As the VCR Shares and performance rights have been cancelled as at 30 June 2017 or else did not vest, we have not made an adjustment for them. From discussion with Management, it is not likely that the performance rights being assessed will vest, and as such we have not accounted for them in our calculation of the fully diluted number of shares. The number of Shares to be issued upon exercise of the warrants in association with the deferred restructuring fee is currently not determinable. Consequently, we have not made any adjustments in relation to the total number of Shares on issue. This is discussed further in Section 11.6.3 of this report
- in order to determine the break even assumption that would need to be adopted to produce a positive equity value, Pre-Recapitalisation, we have considered the sensitivity of the valuation to the key assumptions on a standalone basis. The key assumptions examined in isolation, under the high scenario, include:
 - *maintainable revenue*, which would need to increase to at least \$1,494.0 million to produce a positive equity value, without considering the resultant required increased in working capital or expenses. The ability to increase revenue to this level is not realistic given the declining trend in revenue, the limited ability to grow market share, and industry changes
 - *maintainable EBITDA margin*, which would need to increase to at least 22.9 percent to produce a positive equity value. This margin is significantly higher than Slater & Gordon's recent historical operating margins and furthermore, the ability to increase margins to this level is considered unlikely (despite Slater & Gordon having recently implemented a business efficiency improvement initiative in Australia, and currently executing upon its UK turnaround strategy initiative, with the aim of improving operational efficiency)
 - *selected EBITDA multiple*, which would need to increase to at least 12.0 times to produce a positive equity value. This would be significantly in excess of any comparable transactions observed in the industry as detailed in Section 11.4.2 of this report
 - *value of contingent asset*, which would need to increase to at least \$487.9 million to produce a positive equity value. This significantly exceeds the net assets of Watchstone (£68.5 million as at 31 December 2016) and the funds held in escrow by several hundred million pounds.

While these assumptions have been considered in isolation, which may not be the case in practice, it illustrates the significant changes required in the Company to achieve a positive equity value Pre-Recapitalisation.

Post-Recapitalisation

In contrast to the Pre-Recapitalisation valuation, we have set out below our assessment of the value per share on a Post-Recapitalisation basis, which is based on an equity value for a minority shareholder and the diluted number of shares Post-Recapitalisation (which is based upon total ordinary shares on issue). Using this approach, KPMG Corporate Finance estimates the value per Share, Post-Recapitalisation, to be in the range of \$0.003 to \$0.011 on a minority basis.

Table 25: Post-Recapitalisation value analysis

\$ million	Report Section	Value range Post-Recapitalisation	
		Low	High
Adopted maintainable revenue	11.5.1.1	205.0	215.0
Maintainable business margin (EBITDA)	11.5.1.2	14.0%	14.5%
Maintainable earnings (EBITDA)		28.7	31.2
EBITDA multiple (on a controlling basis) (times)	11.5.2	4.75x	5.25x
Enterprise value of Slater & Gordon		136.3	163.7
Less: net debt (working capital and senior secured debt facilities)	11.6.1	(111.0)	(106.0)
Estimated remaining Recapitalisation & restructure costs		(0.8)	(0.8)
Surplus asset: Watchstone Entitlement Amount	11.6.2	-	35.9
Equity value of Slater & Gordon on a controlling basis		24.5	92.7
Less: minority discount (16.67%) ²		(4.1)	(15.5)
Implied equity value of Slater & Gordon on a minority basis		20.4	77.3
Issued shares (million) Post-Recapitalisation	11.6.3	6,944.9	6,944.9
Implied equity value per share (\$)		0.003	0.011
Assessed equity value per share (\$)		0.003	0.011

Source: Slater & Gordon Management, Annual Reports and Half Year Reports, KPMG Corporate Finance analysis

Note: 1. Tables may not add due to rounding

2. A 20.0% control premium translates into a 16.67% minority discount.

In relation to the above table, we note:

- the methodology adopted to derive the enterprise value of Slater & Gordon Post-Recapitalisation is consistent with the methodology used to derive enterprise value of Slater & Gordon Pre-Recapitalisation as the considerations are the same
- as a result of the structure of the Recapitalisation, the value of Slater & Gordon is based upon the value of the Australian operations as at the Implementation Date only
- equity value has been calculated by deducting the value of the net restructured debt from the enterprise value. The debt value adopted is a range as at the scheme Implementation Date. The debt balance Post-Recapitalisation is based upon the gross debt drawn down from the New Super Senior Facilities, the Restated SFA and other operating financing facilities. The total amount will depend upon how much is drawn down under the New AUD Super Senior Facilities and the Restated SFA which will be up to \$125.0 million. Based on existing expectations Post-Recapitalisation the net debt amount will be between \$106.0 million and \$111.0 million. The calculation of total debt is discussed further in Section 11.6.1 of this report

- the equity value Post-Recapitalisation takes into account the additional expected costs associated with the Recapitalisation of \$0.8 million, if approved
- equity value has been calculated by including the contingent surplus asset in respect of the Watchstone claim relating to the acquisition of Quindell's PSD, in which the potential outcome and value of the claim are unknown at this time. We note that the impact of the claim on the Pre-Recapitalisation and Post-Recapitalisation value differs, as Shareholders' exposure to any potential damages awarded differs under each scenario. This is discussed in more detail in Section 11.6.2
- the assessed equity value includes a minority discount of 16.67 percent, as a result of the significant dilution that existing shareholders will experience Post-Recapitalisation. The assessed minority discount is the inverse of the assessed control premium of 20.0 percent
- equity value per Share has been calculated based on the diluted number of Shares on issue Post-Recapitalisation. The number of ordinary Shares increases significantly from 347.2 million as at 30 June 2017 to 6,944.9 million, as a result of the Recapitalisation. The calculation of the fully diluted shares Pre-Recapitalisation is discussed further in Section 11.6.3 of this report. We note that our analysis does not considered the impact of the 100 to 1 share consolidation due to the contingent nature of its occurrence. However, even if the share consolidation is implemented, our opinion does not change.

11.2 Methodology

Our valuation of Slater & Gordon was prepared on the basis of 'market value'. The generally accepted definition of market value (and that applied by us in forming our opinion) is the value that should be agreed in a hypothetical transaction between a knowledgeable, willing, but not anxious buyer and a knowledgeable, willing, but not anxious seller, acting at arm's length.

Market value excludes 'special value', which is the value over and above market value that a particular buyer, who can achieve synergistic or other benefits from the acquisition, may be prepared to pay.

RG 111 indicates that it is appropriate for an independent expert to consider the following valuation methods:

- the DCF method
- the capitalisation of future maintainable earnings or cash flows (capitalisation of earnings)
- the amount that would be distributed to security holders in an orderly realisation of assets
- the amount which an alternative acquirer might be prepared to pay, and/or
- the most recent quoted price of listed securities.

Each of the above methodologies is generally applicable in different circumstances. In selecting the appropriate methodology by which to value Slater & Gordon, we have considered the Company's prospects and other available information presented to us. An overview of these methodologies is discussed in greater detail in Appendix 6.

Due to the various uncertainties inherent in the valuation process, we have determined a range of values within which we consider the fair value of Slater & Gordon exists.

Given the current issues the Company is facing and where it is in its operational restructuring, all of the aforementioned valuation approaches have their difficulties in application.

Recognising these difficulties, we have used the capitalisation of earnings method, based on maintainable EBITDA, as the primary method. We have adopted this method based on the following considerations:

- a capitalised earnings method is generally appropriate for a business that has a stable earnings history. We note that Slater & Gordon has a long operating history and, prior to June 2015, a consistent earnings trend. Furthermore, despite the recent decline in earnings for Slater & Gordon, Management has initiated an operational restructuring of the business and executed turnaround strategies in both the UK and Australia which is expected to stabilise the earnings going forward. In addition, there are a number of comparable companies that perform similar services within the legal industry with a similar geographical presence to Slater & Gordon from which observable multiples can be identified. We also note that there have been a number of transactions in recent years involving legal firms within Australia and the UK
- a DCF approach is also widely used in the valuation of established businesses. However, the inherent uncertainty associated with Slater & Gordon's near term business operations means that preparing sufficiently reliable cash flow projections, at this point in time, is extremely challenging. This reduces the robustness of any results derived from a DCF analysis. Whilst we have not utilised a DCF approach as our primary valuation approach, we have performed a high level DCF analysis as a cross-check valuation
- a net realisable assets approach is not considered appropriate as this method would not capture the growth potential and goodwill associated with the business
- we have also had regard to trading prices for Shares in our analysis of the assessed value per Share.

Ultimately, the value of the business operations of Slater & Gordon has been determined through an iterative process, ensuring the value derived from our primary capitalised earnings methodology is consistent with the outcomes of our high-level DCF cross check and our analysis of Slater & Gordon's share price performance.

11.3 Selected Valuation Approach – Pre-Recapitalisation and Post-Recapitalisation

11.3.1 Selection of valuation methodology for Slater & Gordon

We have assessed the value of Slater & Gordon, Pre-Recapitalisation and Post-Recapitalisation, (on a standalone basis) by aggregating the estimated market value of their business operations with the realisable value of any other separately valued assets and liabilities, and deducting net debt.

Slater & Gordon's business operations, Pre-Recapitalisation, are SGL-A, SGL-UK and SGS, as discussed in Section 9 of this report. As noted earlier, as a result of the Recapitalisation, Slater & Gordon's business operations, Post-Recapitalisation, only includes SGL-A.

For both the Pre-Recapitalisation and the Post-Recapitalisation valuation of Slater & Gordon, we adopted capitalised earnings as our primary methodology for the reasons set out in Section 11.2 of this report. We note that Slater & Gordon has a long operating history and, prior to June 2015, a consistent earnings trend. Whilst the acquisition of the PSD materially changed the business' earning profile, Management has undertaken actions to extract cost savings in Australia and is currently experiencing positive impacts from the UK turnaround strategy. These initiatives are expected to stabilise earnings going forward. Furthermore, there are sufficient comparable companies that perform similar services within the legal industry with a similar geographical presence to Slater & Gordon. We also note that there have been a number of transactions in recent years involving legal firms within Australia and the UK.

Although we have analysed each of Slater & Gordon's underlying operating divisions (i.e. SGL-A, SGL-UK and SGS) in Section 9 of this report for the Pre-Recapitalisation of Slater & Gordon, we have valued it as a single consolidated business as:

- the value drivers of the three segments are similar, noting that each of the regions in which it operates have different regulatory and legislative conditions, and
- comparable company and transactions generally operate across a number of divisions in which Slater & Gordon operates.

The Post-Recapitalisation value is based upon SGL-A only, and as such, valued the Slater & Gordon business based upon the Australian operations only.

11.3.2 Selection of earnings metric

A capitalised earnings methodology can be applied to a number of different earnings or cash flow measures, including EBITDA, EBIT and Net Profit After Tax (NPAT).

Slater & Gordon and many of the comparable companies have undertaken a number of acquisitions in recent years. As a result, amortisation of intangibles varies widely between peers. In order to ensure consistency between the earnings of Slater & Gordon and the comparable companies, we have selected EBITDA as our earnings measure.

EBITA is also an appropriate earnings metric in the valuation of professional services firms such as Slater & Gordon, however, we note that due to the limited capital expenditure requirements of professional services firms, this earnings metric is substantially the same as EBITDA.

We also note that EBITDA is impacted by movements in WIP and we have considered this in the selection of our earnings multiple (refer to section 11.4.2 and 11.5.2 of this report for further information).

In this regard, EBITDAW is considered a good proxy for operating cash flow. However, as few companies publish EBITDAW figures and, given the challenges in accurately calculating

EBITDAW from publically available information, we have placed a greater emphasis on EBITDA in our analysis of comparable trading and transaction multiples.

In adopting EBITDA, we note the current underperformance of Slater & Gordon and have assessed the value of Slater & Gordon based upon a maintainable earnings framework, whereby an implied maintainable earnings is derived on the basis of Slater & Gordon's assessed maintainable revenue and a maintainable earnings margin that Slater & Gordon would be likely to achieve post the Recapitalisation and business improvement process currently underway. To this, capitalisation multiples are applied, taking into account the risk inherent in the assessed margin, to determine the fair value of Slater & Gordon.

11.3.2.1 Control premium considerations

The multiples applied in a capitalised earnings approach are generally based on data from publicly listed companies and recent transactions in a comparable sector, with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued.

The multiples derived for comparable listed companies are generally based on prices involving trades of small parcels of shares. As such, they generally reflect prices at which portfolio interests change hands. That is, there is no premium for control incorporated within such pricing. They may also be impacted by the level of liquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (i.e. 100 percent) it is appropriate to also reference the multiples achieved in recent transactions, where a control premium and breadth of purchaser interest are more fully reflected.

RG 111.8 states that a control premium should be applied in transactions where a person acquired, or increased a controlling stake in a company. Further, RG 111.9 notes that experts focus on the substance of control, rather than the legal mechanism used to effect it. We note that the Senior Lenders do not currently have any control of the Company. However, following the Recapitalisation, the Senior Lenders will collectively have ownership of 95 percent of the total Shares on issue immediately following the Recapitalisation.

Therefore, our fairness assessment has been based on comparing the value of a Share prior to the Recapitalisation, on a control basis, to that post the Recapitalisation on a non-controlling basis.

Consistent with these considerations, and in accordance with the requirements of RG 111, in valuing Slater & Gordon we have assumed 100 percent ownership, and therefore included a premium for control when assessing the multiples implied by the comparable companies.

Observations from transaction evidence indicate that takeover premiums concentrate around a range between 20 percent and 35 percent³⁷ for completed takeovers. In transactions where it was estimated that the combined entity would be able to achieve significant synergies, the takeover premium was frequently estimated to be in excess of this range. Takeover premiums vary significantly and include:

- synergies, such as the removal of costs associated with the target being a listed entity and/or costs related to duplicated head office functions
- pure control premium in respect of the acquirer's ability to utilise full control over the cash flows of the target entity
- desire (or anxiety) for the acquirer to complete the transaction
- significant cost reductions having already been achieved.

In considering an appropriate control premium to apply to Slater & Gordon we have recognised the inherent uncertainty associated with future earnings due to the current issues with the business operations. We also note that the Company has implemented an operational restructure, turnaround strategies and cost saving initiatives to improve profitability and cost performance. Further, given that we have assumed a maintainable earnings margin in valuing the business, the incremental cost savings that a potential acquirer could achieve are potentially relatively low. Further, it is likely that an acquirer would still consider the uncertainty associated with future earnings when assessing the level of control premium as a separate decision.

Having regard to these factors, we consider the control premium for Slater & Gordon to be at the lower end of the observed range (being 20 percent).

11.4 Pre-Recapitalisation valuation – Capitalised earnings methodology

11.4.1 Maintainable earnings

Maintainable earnings represents the level of earnings that the business can sustainably generate in the future. A selection of maintainable earnings for Slater & Gordon would take into account the following:

- recent and historical financial performance
- the operational initiatives and the continued execution of the turnaround strategies
- the ability of the Company to generate revenue through its key channels (direct-to-consumer marketing, relationship management/business development and use of CMC's)

³⁷ KPMG Corporate Finance analysis based on Mergerstat data for Australian transactions completed between 2001 and 2017, comparing the closing price of the target company one day prior to the takeover announcement to the final offer price.

- the ability to improve the management of the selection and diligence around managing case files
- Slater & Gordon's market position and brand strength
- consolidation in the industry
- the legislative and regulatory environment.

The earnings performance for Slater & Gordon prior to 2016 provides some guidance as to an appropriate level of maintainable earnings, however, it is necessary to take into account the following:

- the recent underperformance of each of Slater & Gordon's operating divisions (refer to Section 9 of this report)
- cost savings initiatives, particularly the turnaround strategies discussed in Section 9 of this report
- the impact of the PSD acquisition in 2015
- the change in accounting for revenue recognition as a result of the adoption of AASB-15 in 2016
- the impact of Slater & Gordon's acquisition strategy.

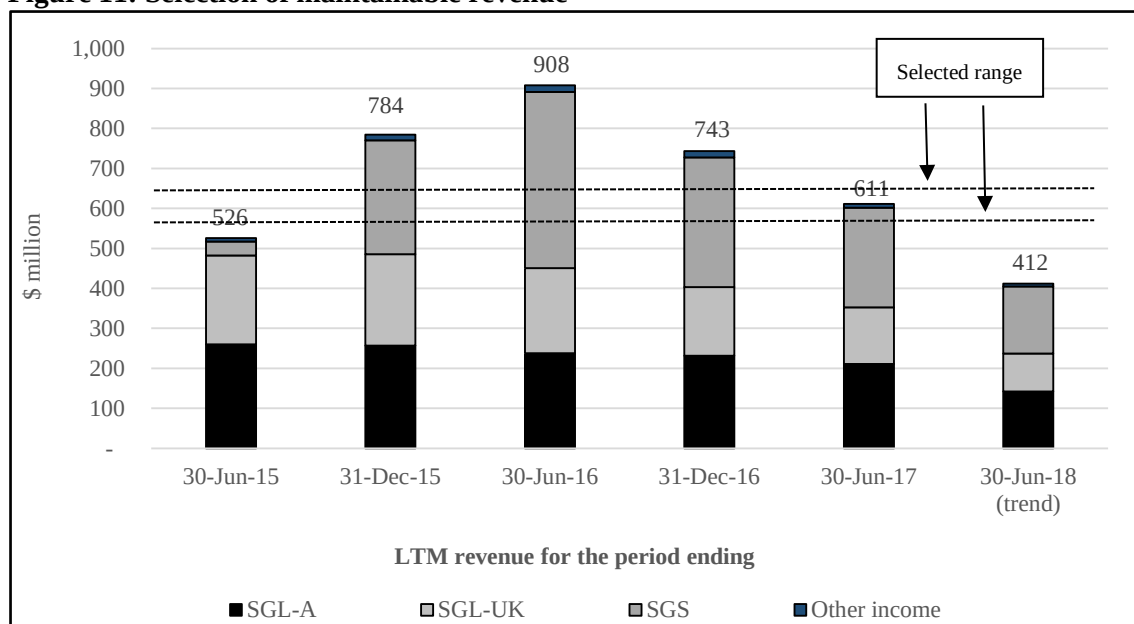
We have taken these factors into account in our assessment of maintainable EBITDA earnings in the following ways:

- analysed margins of competitors to determine a maintainable EBITDA margin and assess the potential impact of the cost savings initiatives
- focussed our analysis of revenue and earnings on recent results that have been restated as a result of the adoption of AASB-15
- placed greater emphasis on results that include a full year's contribution from the PSD.

11.4.1.1 Maintainable level of revenue

The figure below outlines the revenue generated by each of Slater & Gordon's segments since 2015.

Figure 11: Selection of maintainable revenue



Source: KPMG Corporate Finance analysis

Note: 1. LTM = Last Twelve Months

2. 30-Jun-18 (trend) revenue was calculated by multiplying the YoY revenue growth rate in FY17 by the revenue in FY17

3. Dotted lines represent low (\$580.0 million) and high (\$620.0 million) maintainable revenue selected.

In relation to the above, we note:

- revenue in all of the periods above reflect the new revenue recognition standard
- the increase in revenue from FY15 to FY16 is primarily due to the PSD acquisition. Analysis of the historical financial performance is discussed further in Section 9 of this report
- the decrease in revenue in CY16 and FY17 is consistent with the revenue trends of comparable companies in Australia and the UK. Specifically, we note:
 - Shine's revenue decreased by 15.4 percent in the six month period to 31 December 2016 compared to the six month period to 30 June 2016, due to significant underperformance of its energy & resource practice area and the continued weakness in its core personal injury practice. However, revenue increased by 8.9 percent in FY17, due to a strong contribution from Emerging Practice Areas (EPA) revenue in 2HY17. EPA revenue increased by 40.4 percent in FY17 as result of the settlement and subsequent administration of the DePuy class action

We note that the performance of Shine's PI Law practice (0.7 percent decrease YoY) is consistent with the experience of SGL-A's PIL practice

- Fairpoint Group Plc's (Fairpoint) legal services division's³⁸ unaudited revenue³⁹ decreased by 4.1 percent in the six months to 31 December 2016 compared to the six month period to 30 June 2016. Fairpoint also expected legal services revenue to decrease by approximately 15 percent in the financial year ended 31 December 2017 due to a reduction in the number of cases settling. Performance of legal services is expected to improve in FY18 as current case loads reaches maturity and marketing spend increases.⁴⁰ We note that Fairpoint is in financial distress⁴¹ though it expects Simpson Millar and its subsidiaries will continue to trade as going concerns.⁴²
- based upon the FY17 trend growth rates, this implied an estimated FY18 revenue of \$412 million.⁴³ However, we note that this analysis discounts any positive impact on the business associated with the execution of the turnaround strategies, reversal of the brand damage as part of a successful execution of the Recapitalisation process which would result in Management being able to refocus their attention upon running the business, rather than on the needs of the Recapitalisation process
- in Australia and the UK, growth of the PIL market has slowed in recent years, due to:
 - a decline in the number of motor vehicle accidents
 - a decline in the number of workplace injuries
 - an increase in adverse regulation in some regions.
 Refer to Appendix 4 of this report for further information on industry trends.
- Management expects PIL revenue to stabilise in Australia and the UK as its:
 - rate of resolution improves or stabilises as adverse counterparty behaviour normalises

³⁸ Fairpoint's legal services division operates in the United Kingdom.

³⁹ On 28 March 2017, Fairpoint announced that it expected Legal Services revenue to be £41.8 million for the financial year ending 31 December 2016.

⁴⁰ Announced 28 March 2017.

⁴¹ On 28 June 2017, Fairpoint's shares were suspended from trading as the company announced it would not be able to publish its 2016 results by the end of June, as required by AIM rules, as it had received notice by its bank that they were unwilling to provide the "level of on-going support requested by the company". On 3 July 2017, Fairpoint announced that a new lender had agreed to provide up to £5.0 million in debt to fund the legal services division. At the time of the announcement, Fairpoint's shares remained suspended.

⁴² On 4 August 2017, Fairpoint announced its intention to appoint administrators as "ongoing support for the group's subsidiaries outside of the Legal Businesses is made more difficult due to the existence of the onerous lease on the group's head office".

⁴³ Calculated as \$611 million multiplied by (1-32.7%) where 32.7% is calculated as \$611 million/\$908 million.

- market share stabilises
- organically acquired case intake meets case resolutions
- Management expects the GL practices to grow under a stable capital structure, which have been adversely affected by the current financial distress which has created staff attrition and caused decreases in key referrals
- Slater & Gordon's revenue for FY17 was \$611.0 million.

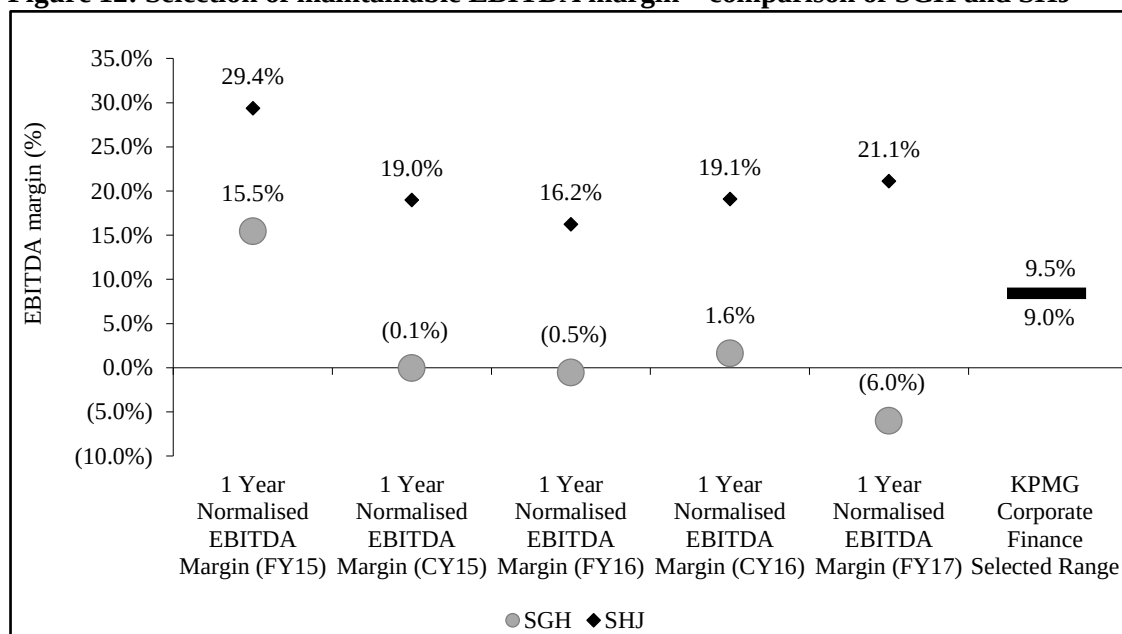
Having regard to the above, we have determined a maintainable revenue range of \$580.0 million to \$620.0 million.

11.4.1.2 Maintainable EBITDA margin

A maintainable EBITDA margin was applied to the maintainable revenue forecast to determine the maintainable EBITDA. The EBITDA margin is determined with reference to the cost structure of an "efficient business" that operates in the professional legal industry, which is based upon analysis of the Company's recent earnings, comparable company analysis and discussion with Management.

The following figure outlines the recent EBITDA margin (normalised) that the Company has been able to achieve compared to the EBITDA margin (normalised) of Shine (SHJ), which we consider to be Slater & Gordon's most comparable peer.

Figure 12: Selection of maintainable EBITDA margin – comparison of SGH and SHJ



Source: KPMG Corporate Finance analysis

Note: The normalised EBITDA margin for SHJ excludes recent transaction costs and net share of profit from associates.

In relation to the above figure, we note:

- Slater & Gordon achieved an EBITDA margin of 15.5 percent for FY15, however, this margin was prior to the inclusion of a full year's contribution from the PSD acquisition
- since the PSD acquisition, normalised EBITDA margins for Slater & Gordon have declined, which is discussed further in Section 9 of this report
- Shine, the most comparable peer, experienced declining margins in FY15, FY16 and 1HY17 due to a challenging operating environment, although, 2HY17 results were positive which resulted in a normalised EBITDA margin of 21.1 percent. We note that the DePuy class action was a strong contributor during the period, resulting in margins that may be abnormally high. Further Shine management have announced that they will increase marketing and innovation spending for FY18 which will provide downward pressure on margins.

When determining an appropriate maintainable EBITDA margin, we considered:

- discussions with Management
- recent performance of the individual operating divisions, noting that Slater and Gordon's UK operating divisions have historically had lower EBITDA margins than its Australian operations
- the challenging operating environment, as demonstrated by Slater & Gordon and Shine's falling EBITDA margins
- the expected improvement in operations from the UK turnaround strategy and other initiatives
- the ability of Slater and Gordon to maintain appropriate margins through reducing variable costs, such as employment expenses, due to the low fixed costs associated with a professional services business.

On the basis of the above, we have selected a maintainable EBITDA margin in the range of 9.0 percent to 9.5 percent. We note that the selected margin is not expected to be achieved in the short term and there is significant risk in executing the initiatives which would result in the achievement of these margin. This risk is reflected in the selection of the EBITDA multiple (refer to section 11.4.2 of this report for more information).

11.4.2 EBITDA multiple

The multiple applied in a capitalised earnings methodology should reflect the return expected by an investor in the business. Returns are dependent on various factors including a business' operational risks, growth profile, profitability, size and external environment, amongst others.

In selecting the multiple range to be applied, consideration is generally given to market evidence derived from listed comparable companies and recent transactions involving comparable businesses, with an appropriate adjustment to reflect the specific characteristics of the business being valued.

In selecting an appropriate range of maintainable EBITDA multiples to apply, we have considered the following:

- the trading and transaction multiples of broadly comparable companies and transactions within the professional legal industry over a similar time period to that for our earnings analysis (refer Appendix 5 of this report)
- the relative size of Slater & Gordon and the comparable companies
- the nature of the environment in which the comparable companies and target company operate
- the fee structure of Slater & Gordon's legal peers. We have placed particular importance on firms that utilise NWNF structures due to the working capital intensity of such businesses and the uncertainty regarding the conversion of revenue into cash flow
- the service mix, target market and geographical presence of Slater & Gordon's peers
- the expected growth profile of Slater & Gordon and continued consolidation in the professional legal industry
- the risk and costs associated with achieving the forecast growth
- the risks associated with Slater & Gordon's ability to maintain and/or grow the business, noting that a large portion of business development is dependent upon the strength of the Slater & Gordon name.

11.4.2.1 Sharemarket evidence

There are few listed law firms in Australia and even less in the UK. While the liberalisation of the law ownership in Australia encouraged some firms to list, the majority of firms in the industry are not considered suited to listing. The legal services industry in Australia and the UK is highly fragmented, comprising small, privately held business and a few major competitors, such as the former 'big six' in Australia and the 'magic circle' in the UK,⁴⁴ which are reliant on partnership models to retain key staff.

The lack of similar fee structures and service line work reduces the comparability of many listed law firms to Slater & Gordon. As a result of being the only listed peer to not be subject to financial distress, predominately practice PIL and utilise a NWNF fee structure, we consider Shine to be most the relevant comparable listed peer to Slater and Gordon.

⁴⁴ The 'big six' is a term that was commonly used to refer to leading law firms in Australia, which included: Allens, Ashurst LLP, Clayton Utz, Herbert Smith Freehills, King & Wood Mallesons, and Minter Ellison. The 'magic circle' is commonly used to refer to the leading five firms in the United Kingdom: Allen & Overy, Clifford Chance, Freshfields Bruckhaus Deringer, Linklaters, and Slaughter and May.

The implied EBITDA multiples (including an applied premium for control) of the identified listed comparable companies are summarised in the table below and set out in more detail in Appendix 5.

Table 26: Share market evidence (including an applied premium for control)⁴

Company name	Market Cap	EBITDA Multiple	
	\$m	LTM ¹	NTM ²
Legal services firms			
Shine Corporate Limited	126	5.2	5.0
Fairpoint Group Plc	7	1.6	n/a ³
Gateley (Holdings) Plc	286	16.1	13.6
IP services firms			
IPH Limited	872	14.3	13.0
Qantm Intellectual Property Limited	193	8.9	9.4
Xenith IP Group Limited	164	22.7	8.2
Murgitroyd Group Plc	71	9.0	n/a ³
Low		1.6	5.0
High		22.7	13.6
Median		9.0	9.4
Average		11.1	9.8

Source: S&P Capital IQ (data as at 1 September 2017) and KPMG Corporate Finance analysis

Note: 1. LTM multiples calculated after normalisation adjustments applied to reported EBITDA

2. NTM multiples based on next twelve months (NTM) of broker consensus forecasts sourced from S&P Capital IQ

3. n/a represents not available

4. Calculation of the multiples was based upon the inclusion of a 20 percent premium to market capitalisation.

In relation to the trading multiples of the identified listed comparable companies, we note:

- a control premium of 20 percent was adopted calculating the multiples
- the multiples at which the comparable companies are currently trading are primarily driven by the size, diversification, revenue stability, cash flow conversion ability and most importantly the growth prospects of the respective companies
- Intellectual Property (IP) services firms tend to undertake engagements on the basis of receiving ongoing retainers. As a result, IP services firms' revenue is relatively stable, displaying annuity like characteristics, and working capital investment tends to be low. Accordingly, we would expect IP services firms to trade at higher multiples than Slater & Gordon, as evidenced by the higher average LTM EBITDA trading multiples of 13.7 times

The comparability of IP services firms to Slater & Gordon is further reduced by the lack of a similar fee structure and dissimilar service lines, which are subject to different competitive and legislative environments

- Gateley (Holdings) Plc (Gateley) offers legal services predominately to corporate clients.⁴⁵ Its legal offering encompasses five operating segments⁴⁶ that generally bill work on the basis of fixed fee arrangements and are not subject to the revenue uncertainty and cash flow conversion issues of PIL work. Accordingly, we consider Gateley to have limited comparability to Slater & Gordon and we would expect Gateley to trade at a premium to PIL peers, as evidenced by its trading LTM EBITDA multiple of 16.1 times. The comparability of Gateley's LTM multiples are further reduced by a number of acquisitions in the 2016 calendar year
- whilst we have included Fairpoint within our comparable company set, the business is considered to be in financial distress. As such, we have not considered it in our analysis of comparable company LTM EBITDA multiples
- Shine is considered highly comparable to Slater & Gordon as it utilises similar fee structures and derives the majority of its revenue from PIL (66.0 percent in FY17; 72.0 percent in FY16). Similar to Slater & Gordon, Shine is also focused on diversifying its revenue into other service lines, with its EPA revenue increasing from 22 percent of revenue in FY15 to 24 percent in FY17. Shine's implied LTM EBITDA multiples implied have experienced significant volatility since listing, as shown in the figure below.

⁴⁵ As at 30 April 2017, Gateley had 4,000 corporate clients and 1,500 private clients.

⁴⁶ Gateley has five operating segments: banking and financial services; corporate, business services; employees, pensions and benefits.

Figure 13: Shine – Historical EBITDA multiples, excluding a premium for control



Source: KPMG Corporate Finance analysis, S&P CapitalIQ, downloaded on 1 September 2017

Note: Historical EBITDA multiples are calculated as enterprise value divided by Last Twelve Months' EBITDA and before a premium for control.

After listing in 2013, Shine's historical EBITDA multiple steadily increased, with its share price reaching a peak \$3.36 in March 2015. This reflected an expectation that its historically strong earnings growth would continue, after EBITDA grew at a CAGR of approximately 14 percent⁴⁷ between FY10 and FY14. Earnings growth was driven by a combination of acquisitions, service offering expansion and operational efficiencies.

From March 2015, Shine's share price declined (and its EBITDA multiple contracted) in line with the negative re-rating of Slater and Gordon (which reflected issues associated with its Quindell acquisition). Subsequently, Shine experienced sustained market pressure as its FY16 earnings forecast was downgraded (due to underperformance of its core business and acquisitions), and its WIP recovery rates and provisioning policies were revised. Shine also experienced considerable regulatory headwinds in New South Wales and Queensland, partially offset by the repealing of the Queensland Liberal National Party's Work Cover Laws in September 2015. In December 2016, Shine disclosed impairments, citing challenging conditions in its energy and resources practice. This culminated on 30 December 2016, when the Chief Executive Officer (CEO) at the time stepped down after a year and a half in the position.

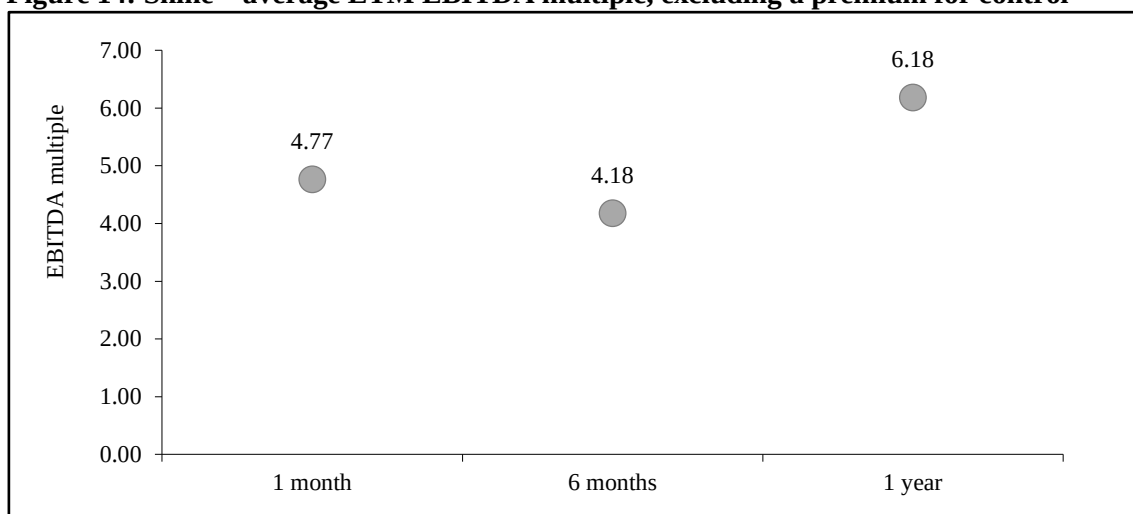
On 25 August 2017, Shine reported FY17 EBITDA of \$36.5 million, an increase in EBITDA of 46 percent. The strong increase was a result of 40.4 percent in EPA revenue, predominately driven by the successful settlement and subsequent administration of the DePuy class action. Shine also reported an increase in WIP on its balance sheet of \$23.3 million, also driven by the DePuy class action and contributed by the acquisition of \$7.0

⁴⁷ CAGR is calculated based on Shine's proforma FY10 EBITDA as stated in prospectus.

million of case files and \$5.0 million of WIP consolidated onto its balance sheet as part of the acquisition of Risk Worldwide New Zealand Limited.

Particular importance is placed on Shine's recent earnings multiples, which reflects the current challenging operating environment and the decline in margins experienced by Shine. We also place more weight on LTM multiples rather than NTM multiples as Shine does not currently receive significant broker coverage. The LTM multiples are illustrated in the figure below.

Figure 14: Shine – average LTM EBITDA multiple, excluding a premium for control



Source: KPMG Corporate Finance analysis, S&P CapitalIQ, downloaded on 1 September 2017

Note. 1. Historical EBITDA multiples are calculated as enterprise value divided by Last Twelve Months' EBITDA
2. All averages are calculated with reference to an end date of 1 September 2017.

Shine is currently trading at around an LTM EBITDA multiple of 5.2x⁴⁸, including a control premium, (4.5x excluding a control premium) which is close to the low end of its historical EBITDA multiple range.

In addition to the current challenging operating environment, Shine's EBITDA multiple may be discounted as a result of:

- the expectation of lower future earnings as the impact of the DePuy class action ceases
- expectations that margins may further be impacted, a result of Management's guidance that spending and marketing would increase in FY18.

We also note that Shine's implied EBITDAW multiple (earnings adjusted to remove the effect of movement in WIP) is 10.9x,⁴⁹ including a control premium (9.4x excluding a

⁴⁸ As at 1 September 2017.

⁴⁹ Adjusted for the acquisition of \$7.0 million of case files and \$5.0 million of WIP consolidated onto its balance sheet as part of the acquisition of Risk Worldwide New Zealand Limited.

control premium). The EBITDAW multiple may provide an indication of pricing from a cash perspective, however, as noted earlier, is not a metric that is usually quoted by comparable companies and as such is difficult to ensure consistency around the determination of this metric. In Shine's case, the EBITDAW multiple would remove the impact of the DePuy class action from earnings, which was a major contributor to increases in WIP during the year.⁵⁰ This may indicate that Shine's normalised, or "through the cycle" EBITDA multiple may be higher once major class action wins have been adjusted.

11.4.2.2 Transaction evidence

The price paid in transactions is widely considered to represent the market value of a controlling interest in a company. The difference between the value of a controlling interest and a minority interest (as implied by the share price) is referred to as a premium for control. This premium can differ from transaction to transaction and is dependent on a range of factors, including the equity share acquired, the negotiating position of the parties, competitive tension in the sales process, the availability of synergies and the extent to which a buyer would pay away these synergies to gain control of the target. Although there has been substantial consolidation of the legal services industry in Australia and the UK in recent years, most of these transactions involved privately owned firms for which there is insufficient public information to allow implied multiples to be calculated. However, given Slater & Gordon's acquisition strategy, a number of transactions have been identified. This transaction evidence is set out in the table below.

⁵⁰ As noted by Shine management on AR17 results presentation call.

Table 27: Transaction evidence

			Acquisition	Implied EV	EBITDA Multiple	
Date	Target	Acquirer	stake	(\$ million) ¹	LTM ²	NTM ³
Slater & Gordon transactions						
May-15	Quindell Plc	Slater & Gordon (UK)	100%	1,352	6.9	n/a ⁴
Nov-14	Schultz Toomey O'Brien	Slater & Gordon	100%	20	n/a	n/a ⁴
Nov-14	Nowicki Carbone	Slater & Gordon	100%	46	n/a	n/a ⁴
Feb-14	Pannone LLP	Slater & Gordon (UK)	100%	61	n/a	n/a ⁴
Sep-13	Fentons Solicitors LLP	Slater & Gordon	100%	56	4.5	n/a ⁴
Apr-12	Russell Jones & Walker Ltd.	Slater & Gordon	100%	82	4.9	n/a ⁴
Aug-10	Trilby Misso	Slater & Gordon	100%	57	8.0	n/a ⁴
Law firm transactions						
Feb-17	Griffith Hack	Xenith IP Group	100%	163	10.5	n/a ⁴
Dec-15	Pryers Solicitors LLP	Pure Legal Limited	100%	27	4.8	n/a ⁴
Oct-15	Best Wilson Buckley Family Law	Shine Corporate Limited	100%	6	n/a ⁴	n/a ⁴
Aug-15	Bradley Bayly Legal	Shine Corporate Limited	75%	16	n/a ⁴	n/a ⁴
Aug-15	Colemans-ctts LLP	Fairpoint Group	100%	34	4.7	n/a ⁴
Oct-14	Sciaccas Lawyers Pty Ltd and Sciaccas Family Lawyers Pty Ltd	Shine Corporate Limited	100%	9	n/a ⁵	n/a ⁴
Jul-14	Emanate Legal and Stephen Browne Personal Injury Lawyers	Shine Corporate Limited; SB Law Pty Ltd	100%	36	n/a ⁴	n/a ⁴
Jun-14	Simpson Millar LLP	Fairpoint Group LLC	100%	27	3.6	n/a ⁴
Feb-14	New Law Group	Redde PLC	100%	81	n/a	n/a ⁴
Low					3.6	n/a⁴
High					10.5	n/a⁴
Median					4.9	n/a⁴

Source: Company financial statements and announcements, S&P Capital IQ, KPMG Corporate Finance analysis

Note: 1. Implied EV refers to the total implied enterprise value in respect of the acquisition

2. LTM multiples calculated based on EBITDA from most recently available results as at the transaction announcement date, after normalisation adjustments

3. NTM multiples calculated based on broker consensus forecasts as at the transaction date

4. n/a represents not available

5. As per the ASX announcement released by Shine Corporate Limited, the initial consideration for Sciaccas of \$8.75 million indicates an estimated 4 to 5 times of FY15 EBITDA.

Further details on these transactions are set out in Appendix 5.

Although the target companies are considered broadly comparable to Slater & Gordon, it is necessary to consider their specific attributes of the target companies as well as the prevailing economic conditions at the time of the transaction.

The multiples implied by these transactions reflect a range of business specific factors, including:

- **the type of legal services offered:** target companies in the UK generally covered all fields of law (PIL to intellectual property law) while those in Australia tend to be focused on one particular field. The acquisition of Griffith Hack by Xenith IP Group occurred at a relatively high multiple, reflecting the relatively stable earnings profile (and lower business risks)

associated with intellectual property law, relative to PIL. This observation is consistent with the trading multiples of the comparable companies identified

- **the level of synergies available to the acquirer:** in transactions where it was estimated that the combined entity would be able to achieve significant synergies or where there is a strong strategic rationale for the transaction implied multiples are likely to be higher. Slater & Gordon's acquisition of Trilby Misso Lawyers occurred at a relatively high multiple (8.0x historical EBITDA), reflecting a combination of the level of synergies expected to be achieved as well as Slater & Gordon's strategy of expanding its geographic coverage and providing a growth platform in Queensland
- **the size of the target company:** most of the transactions identified are relatively small, with the exception of Griffith Hack and the PSD acquisition, which were acquired at multiples of 10.5x and 6.9x historical EBITDA respectively. Larger companies often transact at higher multiples as smaller companies are considered riskier as they generally have less access to capital and may have short operational histories
- **the operating and regulatory environment at time of transaction:** the transactions relating to PIL companies occurred prior to a change in the operating and regulatory environment, which means that these same companies would likely transact at lower multiples
- **the percentage interest acquired:** all observed transactions involved the transfer of control between shareholders and, therefore, each of the historical EBITDA multiples reflect a control premium.

Consideration of transaction evidence

Transaction evidence provides some guidance as to an appropriate multiple for Slater & Gordon. In relation to the transactions, we note that for non-Slater & Gordon related transactions, excluding the acquisition of Griffith Hack, the historical EBITDA multiple ranges are in the range of 3.6x to 4.8x. These firms specialised in practice areas, such as clinical negligence, family law and consumer law, which are more akin to PIL and GL as opposed to Griffith Hack which specialises in intellectual property law and would expect to transact at a premium. Slater & Gordon's acquisitions, with the exception of the acquisition of the PSD business and Trilby Misso Lawyers, occurred at historical EBITDA multiples in the range of 4.5x to 4.9x.

Overall, noting the size of the targets relative to Slater & Gordon, Pre-Recapitalisation, the geographic footprint and the diversified nature Slater & Gordon's services, we would expect an acquisition multiple for Slater & Gordon, Pre-Recapitalisation, when not in financial distress, to be greater than most of the transaction multiples identified.

11.4.2.3 Concluded multiple range

Based on our analysis of the implied multiples of comparable companies and transactions as outlined above, we have selected a forward multiple range of 4.0x to 5.0x future maintainable EBITDA having regard to the following considerations, including the following specific attributes of Slater & Gordon Pre-Recapitalisation:

- the approach adopted to determine future maintainable EBITDA, based on the maintainable earnings margin, implies growth in earnings from current levels
- the risks and costs associated with the execution of the turnaround of the business, including the transformation and business efficiency the business is required to go through
- Slater & Gordon has a strong and highly recognisable brand in the PIL field within Australia and the UK, with a 92 year history
- Slater & Gordon has a global presence, with practices across Australia and the UK. This geographical diversification enables the company to operate a global platform in relation to the provision of legal services. However, the synergies available to a global platform for law firms practicing in the PI sector are limited
- risk associated with Slater & Gordon's near term financial performance, noting that the business had been underperforming in recent periods, with a significant driver of this being from the PSD business operations
- Slater & Gordon has recently implemented a business efficiency improvement initiative in Australia, and is currently executing upon its UK turnaround strategy initiative, with the aim of improving operational efficiency. We note we have considered the successful execution in the turnaround strategies in determining a maintainable EBITDA margin
- the changing UK legal regulatory environment, which is challenging and changing Slater & Gordon's current operating model in the region
- Shine's LTM EBITDA multiple of 5.4 times (including a 20 percent control premium). We note that whilst Shine is the most comparable business to Slater & Gordon, in terms of service offering, it has a smaller geographical footprint and faces challenging conditions, largely due to its exposure to the energy and resources sector. We also note that the DePuy class action, which was a major win for Shine, was a strong contributor Shine's FY17 result, which may be impacting its LTM EBITDA multiple
- EBITDA multiples implied by recent transactions, other than the acquisitions of the PSD business, Trilby Misso and Griffith Hack, support the EBITDA multiple range adopted.

11.5 Post-Recapitalisation – Capitalised earnings methodology

11.5.1 Maintainable earnings

In assessing the maintainable earnings of SGL-A, we have considered the same factors as those discussed in Section 11.4.1 of this report, as these factors also apply when valuing the Australian operations only.

The earnings performance for SGL-A prior to 2016 provides some guidance as to an appropriate level of maintainable earnings, however, it is necessary to take into account the following:

- the recent under performance of SGL-A (refer to Section 9 of this report)

- cost savings initiatives, specifically the Australian turnaround strategies discussed in Section 9 of this report
- the change in accounting for revenue recognition as a result of the adoption of AASB-15 in 2016
- the impact of Slater & Gordon's acquisition strategy.

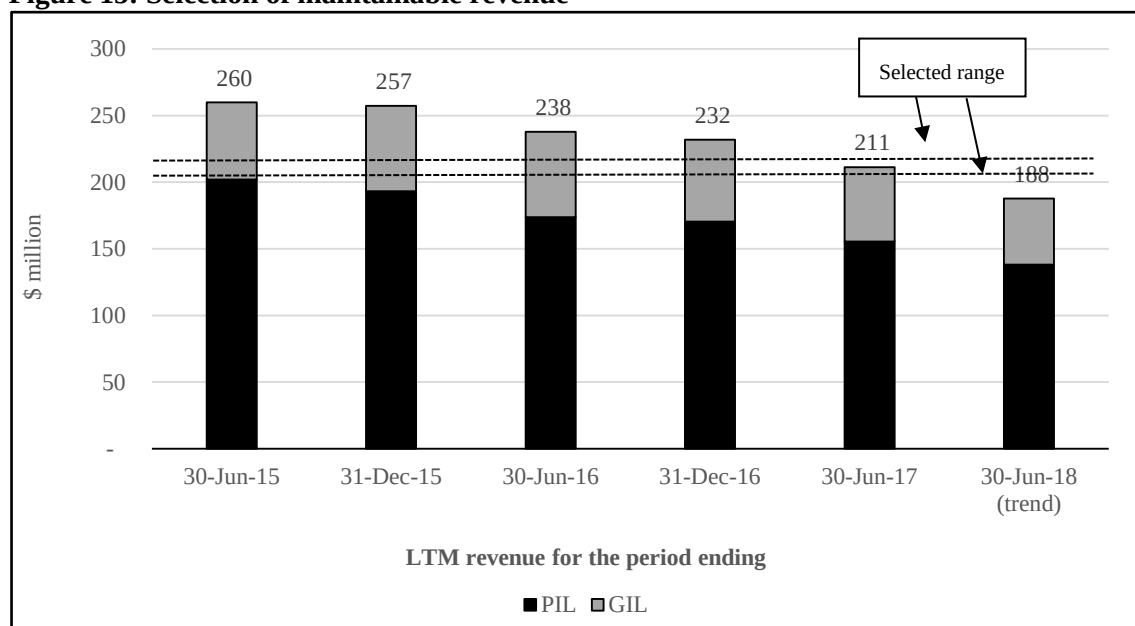
As a result of considering the above, we have:

- focussed our analysis of revenue and earnings on recent results that have been restated as a result of the adoption AASB-15
- analysed margins of competitors to determine a normalised EBITDA margin and assessed what impact the cost savings initiatives may have.

11.5.1.1 Maintainable level of revenue

The figure below outlines the revenue generated by SGL-A since 2015.

Figure 15: Selection of maintainable revenue



Source: KPMG Corporate Finance analysis

Note: 1. LTM = Last Twelve Months

2. 30-Jun-18 (trend) revenue was calculated by multiplying the YoY revenue growth rate in FY17 by the revenue in FY17

3. Dotted lines represent low (\$205.0 million) and high (\$215.0 million) maintainable revenue selected.

In relation to the above, we note:

- revenue in all of the periods above reflect the new revenue recognition standard

- revenue has consistently decrease over the last two years, primarily as a result of increased competition and a number of factors associated with the financial distress of the company, such as high staff attrition and temporary reputational issues
- the decrease in revenue in CY16 and FY17 is consistent with the revenue trends of Shine, Slater & Gordon's most comparable peer. Shine's revenue decreased by 15.4 percent in the six month period to 31 December 2016 compared to the six month period to 30 June 2016, due to significant underperformance of its energy & resource practice area and the continued weakness in its core personal injury practice. However, revenue increased by 8.9 percent in FY17, due to a strong contribution from EPA revenue in 2HY17. EPA revenue increased by 40.4 percent in FY17 as result of the settlement and subsequent administration of the DePuy class action.

Shine's FY17 revenue could be considered abnormally high. We note that the performance of Shine's PI Law practice (0.7 percent decrease YoY) is consistent with the experience of SGL-A's PIL practice

- based upon the FY17 trend growth rates, this implied an estimated FY18 revenue of \$188 million. However, we note that this analysis discounts any positive impact on the business associated with the execution of the turnaround strategies, reversal of the brand damage as part of a successful execution of the Recapitalisation process which would result in Management being able to refocus their attention upon running the business, rather than on the needs of the Recapitalisation process
- the forecast revenue from improvements due to rate of resolution improvements and market share stabilisation
- in relation to the Australian PIL market and Management's expectation around the Australian PIL & GL businesses, these factors are discussed in detail in Section 11.4.1.1 of this report
- SGL-A revenue for FY17 was \$211.0 million.

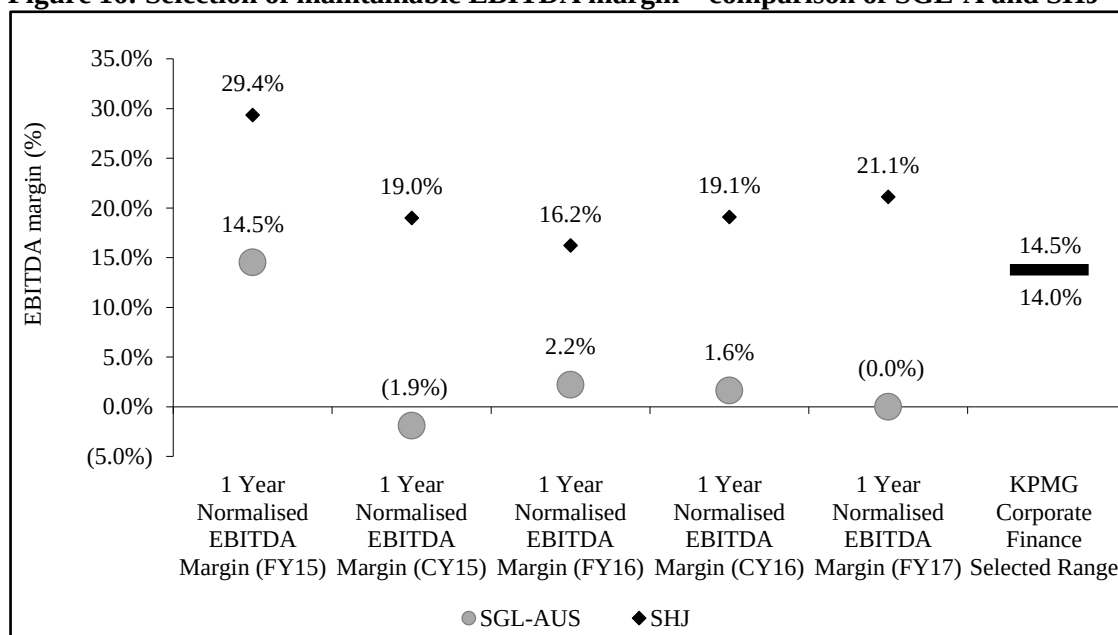
Having regard to the above, we have determined a maintainable revenue range of \$205.0 million to \$215.0 million for SGL-A.

11.5.1.2 Maintainable EBITDA margin

Our approach in determining an appropriate maintainable EBITDA margin for Slater & Gordon Post-Recapitalisation is the same as that adopted when assessing an appropriate maintainable EBITDA margin for Slater & Gordon Pre-Recapitalisation, which is described in Section 11.4.1.2 of this Report.

The following figure outlines the recent EBITDA margin (normalised) that SGL-A has been able to achieve compared to the EBITDA margin (normalised) of Shine, which we consider to be Slater & Gordon's most comparable peer.

Figure 16: Selection of maintainable EBITDA margin – comparison of SGL-A and SHJ



Source: KPMG Corporate Finance analysis

Note: The normalised EBITDA margin for SHJ excludes recent transaction costs and net share of profit from associates.

In relation to the above figure, we note:

- SGL-A was able to achieve a normalised EBITDA margin of 14.5 percent for FY15, however, this margin was prior to increasing resolution rates, increased competition and before the negative effects of financial distress on SGL-A's operations, such as staff attrition and temporary reputational issues
- since FY15, normalised EBITDA margins for SGL-A have declined, as discussed further in Section 9 of this report
- Shine, the most comparable peer, has also experienced declining margins during the period outlined due to a challenging operating environment.

When determining an appropriate maintainable EBITDA margin, we considered:

- discussions with Management
- SGL-A's historical operating margins
- the challenging operating environment, as demonstrated by SGL-A and Shine's falling EBITDA margins
- the expected improvement in operations from the Australian turnaround strategies and other initiatives

- the ability of Slater and Gordon to maintain appropriate margins through reducing variable costs, such as employment expenses, due to the low fixed costs associated with a professional services business.

On the basis of the above, we have selected a maintainable EBITDA margin in the range of 14.0 percent to 14.5 percent. We note that the selected margin is not expected to be achieved by Slater & Gordon, Post-Recapitalisation, in the short term and there is significant risk in executing the initiatives required to generate this margin. This risk is reflected in the selection of the EBITDA multiple (refer to Section 11.5.2 of this report for more information).

11.5.2 EBITDA multiple

Our approach in selecting the EBITDA multiple for Slater & Gordon Post-Recapitalisation is the same as that adopted when selecting an appropriate EBITDA multiple for Slater & Gordon, Pre-Recapitalisation.

11.5.2.1 Sharemarket evidence

The comparable companies considered to determine an appropriate multiple to apply to Slater & Gordon Post-Recapitalisation is consistent with those analysed to value Slater & Gordon Pre-Recapitalisation, as discussed in Section 11.4.2.1 of this report.

We note that while greater emphasis would naturally be placed on comparable companies based in Australia, the most comparable peer to the operations of Slater & Gordon Pre-Recapitalisation is also considered to be Shine.

11.5.2.2 Transaction evidence

Similarly to the comparable companies considered, the comparable transactions considered in relation to determining an appropriate multiple to apply to Slater & Gordon Post-Recapitalisation is consistent with those analysed to value Slater & Gordon Pre-Recapitalisation, as discussed in Section 11.4.2.2 of this report.

11.5.2.3 Concluded multiple range

Based on our analysis of the implied multiples of comparable companies and transactions as outlined above, we have selected a forward EBITDA multiple range of 4.75x to 5.25x having regard to the following considerations, including the specific attributes of Slater & Gordon, Post-Recapitalisation:

- the approach adopted to determine future maintainable EBITDA, based on an 'efficient business' margin, implies growth in earnings from current levels
- Slater & Gordon has a strong and highly recognisable brand in the PIL field within Australia, with a 92 year history
- Post-Recapitalisation, Slater & Gordon will have no operational exposure to the UK legal industry and the issues that the UK business currently face

- Slater & Gordon Post-Recapitalisation will have a strong diversified presence within Australia. This is particularly important as a key risk to legal practices is regulatory change. A diversified presence reduces exposure to change within any one state, as the States are responsible for the majority of laws related to PIL
- risk associated with Slater & Gordon's near term financial performance, noting that the business had been underperforming in recent periods, with a significant driver of this being staff attrition and temporary reputational damage
- Slater & Gordon has recently implemented a business efficiency improvement initiative in Australia, which we note we have considered in the determination of a maintainable margin. While the maintainable margin was determined with respect of variety of factors discussed in section 11.5.1.2 of this report, we note that the selected margin is not expected to be achieved in the short term and there is significant risk in executing the initiatives required to generate this margin. This risk is reflected in the selection of the EBITDA multiple
- recent changes in the Australian regulatory landscape, including the NSW compulsory third party reforms and the repeal of the Newman Government's PIL reforms (refer to Appendix 4 of this report for further information)
- Shine's LTM EBITDA multiple of 5.2 times (including a 20 percent control premium). We note that whilst Shine is the most comparable business to Slater & Gordon Post-Recapitalisation in terms of service offering and geographical exposure, but continues to faces challenging conditions, largely due to its exposure to the energy and resources sector and its, albeit reducing, reliance on the Queensland PIL sector. We also note that the DePuy Class Action, which was a big win for Shine, was a strong contributor Shine's FY17 result, which may be impacting its LTM EBITDA multiple
- EBITDA multiples implied by recent transactions, other than the acquisitions of the PSD business, Trilby Misso and Griffith Hack, support the EBITDA multiple range adopted.

11.6 Other valuation considerations

11.6.1 Net debt

We have assessed the net debt balance to be:

- \$782.3 million Pre-Recapitalisation
- in the range of \$106.0 million to \$111.0 million Post-Recapitalisation.

Net debt includes short and long term borrowings and derivatives for interest rate hedging purposes. In relation to the operations of Slater & Gordon's, we have not adjusted the Pre-Recapitalisation debt balance for cash and cash equivalents of \$33.3 million as it is expected that the cash will be required for working capital purposes as Slater & Gordon is not cash positive at an operational level primarily due to the UK operations and the restructuring costs.

Further details of the debt balance Pre-Recapitalisation is set out in Table 9 of this report.

The debt balance Post-Recapitalisation is based upon the gross debt drawn down from the New Super Senior Facilities, the Restated SFA and other operating financing facilities. The total amount will depend upon how much is drawn down under the New AUD Super Senior Facilities and the Restated SFA which will be up to \$125.0 million. Based on existing expectations Post-Recapitalisation the net debt amount will be between \$106.0 million and \$111.0 million.

11.6.2 Surplus assets and liabilities

Surplus assets represent those assets or investments that are not required in order for Slater & Gordon to continue to realise its principal source of earnings. To determine the equity value, surplus assets must be added back to the enterprise value, whilst surplus liabilities, if any, are deducted.

From discussions with Management, no surplus assets or liabilities were identified. We note, with the exception of the Watchstone claim, we have not included contingent liabilities or assets given the uncertainty of outcomes at the date of this report, as detailed in Section 9.5.3 of this report.

We have viewed the Watchstone claim as a contingent surplus asset. In relation to the Watchstone claim we note:

- under the Pre-Recapitalisation scenario, Slater & Gordon will be entitled to the full amount of the potential damages that may be awarded as a result of the claim. Whilst the claim is for £600.0 million, based on information provided and made available to date, for the purpose of the valuation, an estimate of £50.0 million has been adopted
- under the Post-Recapitalisation scenario, Slater & Gordon would be entitled to the first \$40.0 million should the claim against Watchstone prove successful, provided as a deferred consideration between SGL-A and SGL-UK as part of the Recapitalisation for the transfer of the UK operations to UK HoldCo.

Management advised that should the case head to court, it may take up to four years before the case concludes, though on average it could take approximately two years.

For the purposes of the valuation we have considered the Watchstone claim, as a contingent surplus asset, as follows:

- at the low end of our value range, we assume that the claim is unsuccessful, and as such nil damages are paid
- at the high end of our value range, we assume that the claim takes two years to reach a successful outcome. The full amount Management believe would be made available is awarded.

As the claim is assumed to be successful after two years, the amount available to Shareholders is required to be present valued. As we understand that the funds received in association with the claim would be offset against debt outstanding, the appropriate discount rate to adopt when present valuing the damages would be the cost of debt.

For both the Pre-Recapitalisation and the Post-Recapitalisation value, a cost of debt of 5.6 percent was adopted. This was determined based upon a:

- base rate of 3.7 percent, being the risk free rate we consider to be appropriate for an investment in Australia at this point in time
- a margin of 1.9 percent, based upon the observed spread between the yield of five year BBB rated bonds and the 5 year Australian government bond rate.

Based upon the factors above, should the claim be successful the present value of the surplus asset associated with the Watchstone claim is \$72.7 million (based on the present value of £50 million and exchange rate of GBP/AUD of 1.63093 at 1 September 2017). Should the Recapitalisation be approved, Slater & Gordon would be entitled to the first \$40.0 million of any damages awarded. Based upon the above factors, the present value of this amount is \$35.9 million.

11.6.3 Number of Shares on issue

As noted in Section 9.7, Slater & Gordon has 347,245,601 fully paid ordinary Shares on issue. All other formerly issued performance rights and VCR shares were either extinguished, cancelled by 30 June 2017 or else did not vest based upon the assessment of vesting performance rights in September 2017.

We have not considered the impact of the warrants issued to certain Senior Lenders as the actual number of warrants is not determinable. However, we note that the impact of the warrants would be to dilute the existing Shareholders. As such, our assessment of the number of Shares on issue for Pre-Recapitalisation and Post-Recapitalisation purposes excludes the impact of these warrants.

As such, the number of Shares on issue Pre-Recapitalisation is based upon the number of fully paid ordinary Shares on issue, being 347,245,601.

In considering the number of Shares on issue Post-Recapitalisation, the Shareholders represent 5 percent of Shares on issue immediately following implementation of the Recapitalisation, therefore the shares on issue Post-Recapitalisation will be 6,944,912,020 shares. On the basis that the 100 to 1 shares consolidation occurs, the number of shares outstanding will be adjusted accordingly. However, as the implementation of the share consolidation does not impact upon our opinion, we have not considered it during our analysis of the assessed Share price.

Further detail on the issued capital of Slater & Gordon is detailed in Section 9.7 of this report.

11.7 Valuation cross checks

11.7.1 High level DCF cross check

A DCF approach is widely used in the valuation of established businesses. However, given Slater & Gordon's strategy for further cost and operational effectiveness, its current financial difficulties, the difficulty to project revenue as there are no long term contracts and current

turnaround objectives, the robustness of any results derived from a DCF analysis may be reduced.

However, whilst we have not utilised a DCF approach as our primary valuation approach, we have undertaken a high level DCF analysis based on the Company's ungeared forecast cash flow as a cross-check.

In ascertaining the reasonability of the Pre-Recapitalisation and Post-Recapitalisation value of Slater & Gordon, a high level assessment of the discount rate implied from the value of the business discussed in Section 4 and the forecast cash flow prepared by Management was prepared.

Our DCF analysis assumes that the business operates as a going concern, with no major changes to the competitive and regulatory environment. The resultant implied discount rate ranges for both the Pre-Recapitalisation and the Post-Recapitalisation value ranges is within the range we would consider to be reasonable, and as such supports our assessed valuation of Slater & Gordon derived from our primary capitalised earnings methodology.

11.7.2 Market price

We have performed a cross check of our assessed value per Share against the VWAP of the Shares. In understanding our cross-check, we have considered trading in Slater & Gordon's Shares both prior to and following the announcement of a potential recapitalisation. We have then considered the relevance of share trading over these periods to our assessed Pre-Recapitalisation value per Share (nil) and Post Recapitalisation value per Share (\$0.003 to \$0.011).

Analysis of trading prior to announcement of a potential recapitalisation

Set out in the table below is an analysis of the periodic VWAPs and liquidity of Shares for the 12-month period prior to and including 16 March 2017 (period before the announcement of a potential recapitalisation of the debt facility). For example, '1 week' means five days prior to and including 16 March 2017.

Table 28: VWAP and liquidity analysis – period prior to and including 16 March 2017

Period	Price (low) \$	Price (high) \$	Price VWAP \$	Cumulative value \$m	Cumulative volume m	% of issued capital
1 week	0.08	0.09	0.09	1.9	21.1	6.0
1 month	0.07	0.20	0.11	31.5	294.0	83.4
3 months	0.07	0.33	0.15	65.6	428.7	121.7
6 months	0.07	0.44	0.19	104.1	539.2	153.0
12 months	0.07	0.68	0.34	468.8	1,394.9	395.9

Source: IRESS, S&P Capital IQ and KPMG Corporate Finance analysis.

With regard to the table above, we note the following:

- the Shares exhibited very high liquidity over the prior 12 months, with the number of shares traded 4.0 times total shares on issue over the 12 month period and 1.5 times total shares on issue over the 6 month period off a free float of 89 percent

- the VWAP declined from \$0.34 over the full 12 month period to \$0.09 in the week prior to the announcement.

Relevance of trading prior to announcement of a potential recapitalisation to assessed values per Share

Although Slater & Gordon's Shares were highly liquid in the 12 months to 16 March 2017, the Share price in this period is not an appropriate data point to cross-check our assessed value of Slater & Gordon's Shares (either Pre-Recapitalisation or Post-Recapitalisation) as more than seven months have passed since the announcement of a potential recapitalisation on 16 March 2017. During this time, Slater & Gordon has announced a number of matters that would adversely impact the Share price:

- various litigation proceedings being brought against Slater & Gordon (refer to Section 9.9 of this report)
- weak performance of the PSD acquisition (refer to Section 9.1 of this report)
- on 31 August 2017, its full year results for FY17, which indicated a second consecutive year of material EBITDA and operating cash flow losses and a deficiency in net assets as at 30 June 2017
- the increased awareness of Slater & Gordon's financial situation with the trading of its debt in the secondary market. Throughout 2017, Slater & Gordon announced the existence of a secondary market for its debt and that based on the price of debt traded in this market, enterprise value (market capitalisation plus the traded price of debt) was below bank debt obligations.⁵¹ The implication is that Slater & Gordon's traded value of debt and equity could not fully support debt holders, leaving no value for equity holders.

Consequently, we do not consider the Slater & Gordon Share price prior to the announcement of a potential recapitalisation to indicate that our valuation of a Slater & Gordon Share (either Pre-Recapitalisation or Post-Recapitalisation) is inappropriate.

Analysis of trading since announcement of a potential recapitalisation

We have also considered Slater & Gordon's Share trading since the announcement of a potential recapitalisation on 16 March 2017.

⁵¹ On 17 March 2017, Slater & Gordon advised that in excess of 94% of its debt facility had traded from its original syndicate of par lenders to secondary debt buyers. On 31 August 2017, in the preliminary final report for FY17, SGH stated "The Directors continue to hold the view that current levels of bank debt materially exceed total enterprise value and that the company requires a holistic restructuring of its balance sheet."

Table 29: VWAP and liquidity analysis – period prior to and including 12 October 2017

Period	Price (low) \$	Price (high) \$	Price VWAP \$	Cumulative value \$m	Cumulative volume m	% of issued capital
1 week	0.07	0.07	0.07	0.4	6.3	1.8
1 month	0.07	0.08	0.07	1.6	22.7	6.5
3 months	0.07	0.11	0.08	8.2	102.2	29.4
6 months	0.07	0.13	0.09	26.1	290.6	83.4
17 Mar 17 to 12 Oct 17	0.07	0.14	0.09	29.5	318.4	91.3

Source: IRESS, S&P Capital IQ, KPMG Corporate Finance analysis.

With regard to trading in the period since 16 March 2017, we note the following:

- the volume of shares traded over the 6 month period prior to 12 October 2017 of 83.4 percent is significantly lower than in the 6 month period prior to 16 March 2017 (1.5 times). Although the volume of Shares traded over this period suggests the shares are liquid, we note the following:
 - Slater & Gordon's investor base comprises primarily retail shareholders (with no shareholders as at 30 June 2017 holding more than 2.1% (refer to Table 11))
 - trading involved primarily small parcels of shares (the average value of a parcel traded since 17 March 2017 is \$1,256)
 - Slater & Gordon is not covered by brokers
- the VWAP declined from \$0.09 over the six month period to \$0.07 in the last week of the period.

Relevance of trading since announcement of a potential recapitalisation to assessed values per Share

We do not consider Share trading since 16 March 2017 to be relevant to a Pre-Recapitalisation assessment of value. Although the Share price will reflect recent company announcements (including the litigation proceedings, performance of the PSD acquisition and FY17 results), it is supported by the proposed Recapitalisation. As a result, it is likely that in the absence of the Recapitalisation, Slater & Gordon's Shares would trade at a price that is materially lower.

The most recent VWAP (\$0.069 over the week ended 12 October 2017) exceeds our assessed Post-Recapitalisation value of the Company of \$0.003 to \$0.011. In itself, a positive quoted market price is indicative of investor sentiment that the Recapitalisation has the potential to provide value to Shareholders. We also do not consider recent Share trading to indicate that our Post-Recapitalisation valuation is inappropriate for the reasons set out below:

- whilst there is an active and liquid market, the trading primarily involves small parcels of shares. The Shares are not followed by brokers nor do they have institutional support. This reduces the reliance that can be placed on the quoted market price as a basis of value
- the full details of the Recapitalisation will not be available until the release of the Senior Lender Explanatory Statement and Shareholder Claimants Explanatory Statement

- Slater & Gordon's trading price may also reflect a degree of optionality in terms of the timing of a turnaround of the business operations and restructure of the debt facility. We recognise that there are a range of potential outcomes for Slater & Gordon's business operations, including a successful turnaround of the business operations and a restructure of the debt facility. In our view, the timing of a turnaround is uncertain and the business is facing considerable distress as a consequence of its financial position, given Slater & Gordon is currently loss making. Our assessed values reflect a judgement based on a range of potential outcomes and the likelihood of these outcomes, which overall results in a Post-Recapitalisation value of \$0.003 to \$0.011 per Share
- we also note the potential for the option value to reflect the possibility of an alternative transaction which results in 'special value' to Slater & Gordon Shareholders. However, as noted in Section 11.2 of this report, in accordance with the requirements of RG111, our valuation excludes any 'special value' not available to a broad pool of potential purchasers
- notwithstanding the low trading price per Share, when value is considered on a Post-Recapitalisation basis, Slater & Gordon's enterprise value would need to be \$645.9 million to \$686.8 million in order to support a Share price of \$0.069 (the VWAP in the week to 12 October 2017). This implies an enterprise value which inherently cannot be supported given:
 - the Company's most recent published financial statements indicate material EBITDA losses in both 2016 and 2017 (that is, even before taking into account interest, depreciation and amortisation), material operating cash flow losses in both 2016 and 2017 (before taking into account capital expenditure requirements) and a deficiency in net assets as at 30 June 2017 (refer to Tables 7 and Table 9)
 - it implies an EBITDA multiple in the range of 20.7 times to 23.9 times (based on our assessed maintainable earnings of \$28.7 million to \$31.2 million)
 - Management has publicly stated since February 2017 that "current levels of bank debt exceed enterprise value" (in other words, there is no fundamental equity value)
- without a recapitalisation process whereby the solvency of Slater & Gordon has been supported by its Lenders it is likely that the Company will be placed into external administration by May 2018, which may lead to the appointment of receivers and administrators. In these circumstances we do not expect that Shareholders would receive any value for their Shares.

Consequently, we do not consider recent Share trading to indicate that our Post-Recapitalisation valuation is inappropriate.

12 Comparison of Outcomes for Senior Lenders under the Senior Lender Scheme

12.1 Return to Senior Lenders if the Recapitalisation is approved

This section sets out our analysis of the return to Senior Lenders if the Recapitalisation is approved.

The total return to Scheme Senior Lenders if the Recapitalisation is approved is comprised of the debt facilities post Recapitalisation, plus the market value of ordinary shares and convertible notes.

Post-Recapitalisation, the debt remaining in Australia comprises the New AUD Super Senior Facility of \$65 million and restatement of the original SFA totalling \$60 million.

The return from the UK Convertible Notes will depend on a range of factors including the success of Watchstone related claims and UK asset divestments. We have assumed a nominal level of return under a low case (the note converts into a nominal number of ordinary shares in S&G UK at the end of the term) and £50 million under a high case (amount of Watchstone claim in escrow) converted to AUD at 0.5912 AUD / GBP.⁵² The Watchstone claim is for a total of approximately £600 million which exceeds the net assets of Watchstone and the funds held in escrow by several hundred million pounds. We have not attempted to quantify the likely return from the claim, the probability of success nor the costs of litigation, but have set out the impact of £50 million under the high scenario (taking into consideration the level of funds in escrow) for illustrative purposes with a present value discount assuming the matter is not resolved for 2 years.

We have adopted 95 percent of the market value of Shares in the Australian operations as set out in Section 11 on a controlling interest basis, representing the level of ordinary shares the combined Scheme Senior Lenders will hold following the Recapitalisation and 100 percent of the UK operations. The value of the UK operations is based on the agreed amount to be paid with regards to the Watchstone Proceeds and the promissory note as detailed in the Senior Lender Scheme. We note this value may differ from a value taking into account a longer term view of the UK operations and an improvement in the business.

⁵² Assumed 0.5912 AUD / GBP as at 30 June 2017.

Table 30: Total return to Scheme Senior Lenders if Recapitalisation is approved as at 30 June 2017

\$million	Reference	Low	High
Gross debt as at 30 June 2017	Table 23	780.9	780.9
Total return to Senior Lenders (controlling basis)			
Super Senior Facility	Table 20	40.0	40.0
Restated SFA	Table 20	60.0	60.0
Market value of 95% of ordinary shares in Australian operations ¹	Table 3	23.3	54.1
Value of 100% of shares issued in UK HoldCo ²	Note 2	52.0	92.0
Surplus Asset Watchstone claim less Watchstone Proceeds ³	Note 3	0.0	44.6
Total return to senior lenders (controlling basis)		175.3	290.7
Return % (controlling basis)		22.4%	37.2%

Source: KPMG Corporate Finance analysis

Note: 1. The market value of the Australian shares does not include the value of the Watchstone Proceeds
2. The value of the UK operations is based on the agreed amount to be paid with regards to the Watchstone Proceeds, the promissory note and the intercompany loan (as at 30 June 2017 adjusted for the value of Intellectual Property) as detailed in the Senior Lenders Scheme. Pending the outcome of the Watchstone claim, the value of the Watchstone Proceeds is in the range of zero to \$40.0 million. We note the value of the UK HoldCo may differ from a value taking into account a longer term view of the UK operations and an improvement in the business
3. Amount attributable to lenders from proceeds of Watchstone claim above the Watchstone Proceeds
4. Tables may not add due to rounding.

The table above sets out the return to Scheme Senior Lenders immediately following the Recapitalisation based on estimates of the market value of each instrument held following the Recapitalisation. However the Scheme Senior Lenders will continue to be exposed to the risks of the Company and the UK operations while they hold these instruments. The proceeds ultimately returned to Scheme Senior Lenders will depend on the future performance of the Company and UK HoldCo, and market conditions at the time of exit.

As the Company will be solvent immediately following the Recapitalisation, the other debts of the Company (such as employee entitlements, trade creditors, disbursement funder, etc.) are expected to be paid in full as and when they fall due in the ordinary course of business.

12.2 Return to Scheme Senior Lenders if the Recapitalisation is not approved

If the Recapitalisation is not approved, Slater & Gordon is expected to become insolvent sometime by May 2018.

Beneficiaries of the Company may realise value through a range of different insolvency scenarios, which could include:

- the Company continuing as a going concern and being sold to third parties (either as a whole or in parts)
- the Company (or parts thereof) being wound down / run off
- some combination of the above.

In our view, the expected return from an insolvency of Slater & Gordon is highly uncertain due to the following risks and challenges:

- the intangible and long lead time nature of the Company's key assets (ie WIP in the form of partially complete cases can take years to complete and do not have a ready liquid market, such as tangible assets like real estate or motor vehicles)
- the complexity associated with operations across multiple sites and jurisdictions
- low staff morale and potential loss of key employees and group practice leaders (which may be of concern to the regulators)
- potential regulatory action by the Australian and/or UK regulators if they are not comfortable with the Company's ability to protect clients' interests and/or the conflict between optimising value for creditors and preserving client interests (which could result in cases being transferred to other service providers for no consideration)
- counterparties may try to frustrate and delay the settlement of cases
- in the face of negative publicity, clients may choose to take their cases elsewhere or be poached by exiting staff and/or competitors. Whilst client files are covered by a lien, it may be difficult to enforce in practice
- the retention of employees and clients will be inextricably linked which will limit reorganisation options
- while in wind down / run off mode, corporate and fixed costs will be spread over a diminishing revenue base as cases are completed, creating challenges to maintaining a self sufficient cash flow, staff engagement and retaining clients
- there is unlikely to be a ready buyer for the Company as a whole, and the Australian and UK operations may need to be split into smaller components
- the UK operations are highly interrelated and interdependent, cross-referring significant proportions of volume/turnover and sharing central services. A partial run-off strategy would have significant consequences for the businesses in run-off and those that continue to trade. This arises from the impact on staff behaviour/morale, brand contagion, client actions, counterparty responses and the associated costs to maintain the status quo. Any breakup of the Company could see the SGL business unravel quickly, with knock on consequences to funding requirements and outcomes.

Considering the above risks and challenges, we have estimated the return to Scheme Senior Lenders if the Recapitalisation is not approved below. In estimating the return to Scheme Senior Lenders if the Recapitalisation is not approved, we have adopted the following assumptions:

- under a low case scenario, the UK companies are placed into administration and no sale is achievable leading to intervention by the SRA. Australia is placed into liquidation resulting in the wind down of the business and distressed realisation of WIP and debtors
- under a high case scenario, the UK companies are either wound down and/or sold off in parts. Australia is also placed into liquidation with distressed realisation of WIP and debtors

- cash on hand is assumed to return between nil under a low scenario (due to being exhausted by the time external administrators are appointed) and 50 percent of book value under a high scenario which assumes some funds have been utilised in trading over the period since 30 June 2017
- receivables comprised approximately \$326 million in disbursements and \$157 million in trade debtors as at 30 June 2017.
 - *Disbursements*: a bulk of disbursements are legal creditors who have entered into agreements with Slater & Gordon to receive payment when proceeds from settled cases are received. We have assumed there would be no surplus proceeds available for Scheme Senior Lenders under either a low or high case scenario from collection of disbursements given these arrangements.
 - *Trade debtors*: we expect there would be considerable difficulty collecting debtors in a liquidation scenario estimating that the realisation costs in many instances may outweigh the receivable value. Australian receivables are assumed to return between 50 percent under a low scenario and 65 percent under a high scenario. UK receivables are assumed to return between 5 percent under a low scenario and 8 percent under a high scenario due to the additional costs estimated to prove disputed claims.
- Australian WIP: as WIP represents an estimate of the value of ongoing cases, there will be additional costs and time required to be invested to complete each case. The realisation rate for WIP is expected to be relatively low. We have assumed Australian based current WIP is realised at a rate of between 15 percent and 25 percent and non-current WIP is not realised under either case given the scenario that regulatory intervention may result in the cases being controlled by another party
- UK WIP: we have assumed the SRA intervenes to protect the interests of clients and assigns the cases to other firms under a low case. As a result, we have assumed no WIP realisation under a low case as we would expect the cost of resolving all outstanding cases would outweigh the value of remaining WIP. Under a high case, we have assumed 6 percent of WIP is recovered which takes into account the additional cost required to resolve all cases before any value can realised
- we have also assumed:
 - the value of property, plant and equipment, which primarily relates to fit out, furniture and technology would be of little commercial value and after costs of realisation would have negligible value (nil) under a low case to 10 percent of book value under a high case
 - trading and administrator's fees would be between approximately \$5.0 million under a low case and \$15.0 million under a high case due to the complexities of operating the businesses during wind down. The costs of recovering receivables and WIP are included in the realisation rates for those assets. Both scenarios exclude the cost of prosecuting the Watchstone claim

- employee entitlements, including redundancy costs would be approximately \$60 million under a low scenario and \$40 million under a high scenario. The high case assumes some employees in the UK subsidiaries are transferred to new employers avoiding some redundancy costs
- we have not attempted to quantify the likely return from the Watchstone claim, the probability of success nor the costs of litigation, but set out the impact of £50 million under the high scenario (taking into consideration the level of funds in escrow) for illustrative purposes. The calculation is a present value amount using an exchange rate at 30 June 2017,⁵³ refer Section 11.6.2 of this report.

Table 31: Total return to Scheme Senior Lenders if Recapitalisation is not approved

\$'000	Book value	Low	High
Assets			
Cash and bank balances	33.3	0.0	16.7
Receivables	395.5	54.1	75.6
Work in progress	294.9	17.0	39.8
Current tax assets	0.0	0.0	0.0
Other current assets	21.1	0.0	0.0
Property, plant and equipment	26.6	0.0	2.7
Receivables (non-current)	91.5	9.8	14.1
Work in progress (non-current)	220.1	0.0	0.0
Intangible assets	13.1	0.0	0.0
Deferred tax assets	34.7	0.0	0.0
Other non-current assets	0.5	0.0	0.0
Watchstone claim ¹	0.0	0.0	75.9
Total assets Available for Creditors	1,131.3	80.9	224.8
Less Realisation Costs			
Trading and administrative costs	-	(5.0)	(15.0)
Total Assets Available for Creditors after realisation costs	1,131.3	75.9	209.8
Liabilities			
Employee Entitlements	(22.9)	(60.0)	(40.0)
Estimated amount available for secured creditors	1,108.4	15.9	169.8
Secured Borrowings	(780.9)	(780.9)	(780.9)
Estimated amount available for unsecured creditors	327.4	(765.0)	(611.2)
<i>Estimated return %</i>		2%	21.7%

Source: KPMG Corporate Finance analysis

- Note 1. On 14 June 2017, Slater & Gordon announced that its subsidiary, Slater & Gordon UK (1) Ltd filed and served a claim in the High Court of England and Wales for approximately £600 million against Watchstone Group Plc relating to the Slater & Gordon acquisition of the Watchstone Professional Services Division in 2015. The value of that claim exceeds the net assets of Watchstone and the monies currently held in escrow by several hundred million pounds
- Note 2. Tables may not add due to rounding.

⁵³ Assumed 0.5912 AUD / GBP as at 30 June 2017.

This analysis shows that the return to Scheme Senior Lenders if the Recapitalisation is not approved is less than the return to Scheme Senior Lenders if the Recapitalisation is approved. As mentioned previously, the expected return from an insolvency of Slater & Gordon is highly uncertain due to the complexity of its operations across multiple sites and jurisdictions. The levels of return ultimately achieved under an insolvency of Slater & Gordon may be different to the levels set out above, and those differences may be material.

13 Shareholder Claimant Scheme

The Shareholder Claimant Scheme forms part of the proposed restructure of Slater & Gordon, which will be effected by the Recapitalisation and the Shareholder Claimant Scheme. It is part of a comprehensive solution to resolve and compromise all potential Shareholder Claims by Shareholder Claimants against Slater & Gordon and its current and former Officers.

13.1 Background

As discussed in Section 9 of this report, two representative proceedings are currently on foot against Slater & Gordon in the Federal Court of Australia, being the Hall Proceeding and the Babscaj Proceeding, whilst the Company has also been notified of a further potential class action claim, the Delaney Application. A detailed overview of these claims are discussed in Section 3.2 of the Shareholder Claimant Explanatory Statement.

13.2 Hall Proceeding

On 21 September 2017, as a result of the Court directed mediation process, Slater & Gordon and the claimants to the Hall Proceeding signed a binding settlement agreement, without any admission in respect of liability, to settle all disputes on terms consistent with those set out in the Shareholder Claimant Scheme and give legal effect of any proposed settlement agreed upon. Settlement will be effected by the Shareholder Claimant Scheme becoming effective in accordance with Section 411 of the Corporations Act.

Once the Shareholder Claimant Scheme becomes effective, the Scheme Administrators will receive from the Hall Proceeding Claimant's solicitors the funding from Slater & Gordon's insurers to seed and establish the Scheme Fund. The Scheme Fund will be placed under the exclusive control of the Scheme Administrators⁵⁴ who shall deal with it in accordance with the provisions of the Shareholder Claimant Scheme.

13.3 Shareholder Claim

In assessing the fairness of the Shareholder Claimant Scheme, the nature of the Hall Proceeding, and other current or potential claims of a similar nature, was considered with reference to Section 563A (1) of the Corporations Act. This provision provides that in the event of an insolvency, subordinated claims are postponed until all other debts payable by, and claims against the Company, are satisfied.

Section 563A (2) of the Corporations Act relevantly defines a "subordinated claim" as:

- a) a claim for a debt owed by the company to a person in the person's capacity as a member of the company (whether by dividends, profits or otherwise); or

⁵⁴ Scheme Administrators refer to the administrators of the Shareholder Claimant Scheme.

- b) any other claim that arises from buying, holding, selling or otherwise dealing in shares of a company.

Based upon these definitions, the class claimants' claims from the Hall Proceeding and Babscaay Proceeding, as discussed in Section 9 of this report, and any other claims brought by Shareholders against Slater & Gordon within the meaning of s563A(2) are subordinated claims.

Section 562 of the Corporations Act preserves for the benefit of the subordinate claim holders any proceeds recovered from a responsive policy of insurance "*after deducting any expenses of or incidental to getting in that amount*". The maximum amount available in a winding up to subordinated claimants is, therefore, the indemnity available under relevant and responsive director and officer insurance policies. An overview of the director and officer insurance policies are discussed in Section 3.3 of the Shareholder Claimant Explanatory Statement. From discussions with Management, we were advised that the available proceeds from the relevant insurance policies is estimated to be \$40.0 million.

13.4 Hall Proceeding Settlement

On 21 September 2017, Slater & Gordon entered into the Hall Proceeding Settlement Deed setting out the settlement terms of the Hall Proceeding. The terms are summarised as follows:

- an agreed settlement amount of \$36.5 million, which will comprise the Scheme Fund and funds made available pursuant to the New AUD Super Senior Facility as part of the Recapitalisation
- distribution of the Scheme Fund, post legal and other administrative costs, to Shareholder Claimants being effected by the approval of the Shareholder Claimant Scheme
- Shareholder Claimants, in consideration for the compromise of their claims against Slater & Gordon, will be entitled to prove against and share rateably in the Scheme Fund
- the funds within the Scheme Fund, post legal and other administrative costs, will be distributed to Shareholder Claimants, and all Shareholder Claims will be compromised with the implementation of the Shareholder Claimant Scheme
- the Hall Proceeding will be dismissed with no orders as to costs, and
- settlement is without admission of liability by Slater & Gordon

We also note that as a result of using a litigation funder during the proceeding, upon the successful settlement of the claim, the litigation funder will receive a commission from the funds provided to the Hall Proceeding Claimants.¹¹

13.5 Comparison of rights

In considering the impact of the implementation of the Shareholder Claimant Scheme, certain rights available to the Shareholder Claimant before and after the implementation of the Shareholder Claimant Scheme are considered. The table below summarises the impact of the Shareholder Claimant Scheme on these rights.

Table 32: Rights of Shareholder Claimants

Rights of Shareholder Claimants	Pre-implementation of the Shareholder Claimant Scheme	Post-implementation of the Shareholder Claimant Scheme
Make Shareholder Claims against Scheme Company and its Officers	File proceedings in relation to Shareholder Claims against Scheme Company and its Officers and seek recovery of any loss and damage suffered, subject to Scheme Company and Officers ability to satisfy any such judgement given against them	Shareholder Claims are extinguished and Shareholder Claimants' rights are limited to an entitlement to prove against and share rateably in the Scheme Fund
Make Shareholder Third Party Claims against Third Parties arising from or in connection with Shareholder Claims	Make Shareholder Third Party Claims and seek recovery of any loss and damage suffered as a result of a Third Party's conduct, subject to that Third Party's ability to satisfy any such judgement given against them	Shareholder Claimants can pursue Shareholder Third Party Claims provided that they are Permitted Claims
Hall Proceeding, Babsday Proceeding or ACA Potential Claim	Continue proceedings already commenced against the Scheme Company (Hall Proceeding, Babsday Proceeding) or commence proceedings (ACA Potential Claim)	All proceedings will be dismissed with no orders as to costs. Shareholder Claimants will release the Released Persons, which includes the Scheme Company and its Officers, from Claims and are barred from commencing new proceedings unless they are Permitted Claims. Shareholder Claimants will be able to submit a Proof of Debt and share rateably, subject to adjudication of that Proof of Debt, in the Scheme Fund

Source: Explanatory Statement Section 2.9 of the Shareholder Claimant Scheme.

In relation to the rights, we note that should the Shareholder Claimant Scheme be approved:

- the proceedings brought forth by the Shareholder Claimants will be dismissed and all Shareholder Claims are extinguished. However, the Shareholder Claimants will gain the right to prove against and share rateably in the Scheme Fund, that is known and guaranteed, for a distribution, whilst avoiding a potentially lengthy court case which has an uncertain outcome
- the rights of Shareholder Claimants to make a Permitted Claim against a Third Party is crimped insofar that any claim lodged cannot result in a risk of financial contagion to Slater & Gordon or its Officers, as such claims are extinguished. Permitted Claims are those in which there is no right for a Third Party to seek indemnity or contribution from Slater & Gordon or its Officers. Thus, in addition to the distribution a Shareholder Claimant will

receive as a result of the Shareholder Claimant Scheme approval, provided their claim is proven, the Shareholder Claimant is able to pursue a claim against a Third Party provided the condition relating to financial risk contagion to Slater & Gordon or its Officers holds.

Appendix 1 – KPMG Corporate Finance Disclosures

Qualifications

The individuals responsible for preparing this report on behalf of KPMG Corporate Finance are Ian Jedlin, Joanne Lupton and Guy Edwards. Ian is an Associate of the Institute of Chartered Accountants in Australia and a Senior Fellow of the Financial Securities Institute of Australasia and holds a Master of Commerce from the University of New South Wales. Joanne is a member of the Institute of Chartered Accountants in Australia and a Fellow of the Financial Securities Institute Australasia and holds a Bachelor of Commerce degree. Each has a significant number of years of experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of independent expert reports. Guy is an Associate, Institute of Chartered Accountants Australia and New Zealand, a Registered Liquidator since 2002 and holds a Bachelor of Commerce degree. Guy has over 25 years in providing restructuring and insolvency services.

Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than KPMG Corporate Finance's opinion as to whether the Recapitalisation is fair and reasonable to Shareholders. KPMG Corporate Finance expressly disclaims any liability to any Shareholders who rely or purport to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Other than this report, neither KPMG Corporate Finance nor the KPMG Partnership has been involved in the preparation of the Explanatory Memorandum or any other document prepared in respect of the Recapitalisation. Accordingly, we take no responsibility for the content of the Explanatory Memorandum as a whole or other documents prepared in respect of the Recapitalisation. We note that the forward-looking financial information prepared by the Company does not include estimates as to the potential impact of any future changes in taxation legislation.

Independence

In addition to the disclosures in our Financial Services Guide, it is relevant to a consideration of our independence that, during the course of this engagement, KPMG Corporate Finance provided draft copies of this report to management of Slater & Gordon for comment as to factual accuracy, as opposed to opinions which are the responsibility of KPMG Corporate Finance alone. Changes made to this report as a result of those reviews have not altered the opinions of KPMG Corporate Finance as stated in this report.

Consent

KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it is included with the Explanatory Memorandum to be issued to the shareholders of Slater & Gordon. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears.

Appendix 2 – Sources of information

In preparing this report we have been provided with and considered the following sources of information:

Publicly available information:

- various ASX company announcements which included but were not limited to:
 - o Appendix 4D Half Yearly Report and Financial Accounts
 - o 2016 Annual Report to shareholders
 - o Market Update Amendment to Syndicated Facility Agreement
- various broker and analyst reports
- various press and media articles
- various reports published by IBISWorld Pty Ltd which included:
 - o Personal Legal Services in Australia, IBISWorld Industry Report, March 2017
 - o Personal and Workplace Injury Lawyers in Australia, IBISWorld Industry Report, April 2017
 - o Legal Services in Australia, IBISWorld Industry Report, March 2017
- various market research reports and websites which included but were not limited to:
 - o Australian Bureau of Statistics
 - o State of the Legal Market: Australia – 2015, Melbourne Law School
 - o UK Legal Services Market Report 2017
 - o Office for National Statistics
 - o The future of legal services, The Law Society of England and Wales, January 2016
 - o IRN Research, 2015. UK PI Market. UK Legal Market Briefing
 - o Legal Services Board, 2013. Evaluation: Changes in competition in different legal markets.
 - o Ibid
 - o An Assessment of the Market for PI, A final report the Solicitors Regulation Authority, October 2016
- financial information from Bloomberg, Thompson Financial Securities, Aspect Huntley and Connect 4.

Non-public information:

- Notice of Annual General Meeting and Explanatory Memorandum, Senior Lenders Explanatory Statement, Shareholder Claimant Explanatory Statement, Senior Lenders Scheme of Arrangement and Shareholder Claimant Scheme of Arrangement, term sheet and share sale agreement in relation to the Recapitalisation
- other confidential documents, presentations and work papers.

In addition, we have had discussions with, and obtained information from, senior Management of Slater & Gordon and its advisors.

Appendix 3 – Slater & Gordon corporate history overview

Year	Description
1935	Slater & Gordon founded
1985	Opens Perth office
1986	Opens Sydney office
1994	Introduces innovative No Win – No Fee legal fee structure
2003	Opens Queensland and ACT offices
2005	Acquired Geoffrey Edwards & Co (Sydney and Newcastle)
2006	Acquired Paul J Keady & Associates (Broken Hill), Gary Robb & Associates (ACT), Reid & Reid (Newcastle) and Maurice May & Co (Sydney and Wollongong)
2007	Becomes world's first publicly listed law firm Opens Adelaide office Acquired McClellands (Sydney and Canberra) and D'Arcys Solicitors (Brisbane) Acquired 3 regional practices: Crane Butcher McKinnon (Coffs Harbour, NSW), Nagle & McGuire (Nowra, NSW) and Edwin Abdo & Associates (Bunbury, WA)
2008	Acquired Secombs Solicitors, a full services legal firm located in Footscray, Melbourne; Blessington Judd, a Sydney based commercial firm; the PI practice of Carter Capner; and, Quinn and Scattini's personal injuries and professional negligence practice areas
2009	Opens Hobart office Acquired Kenyons Lawyers, a Melbourne based practice that generates approximately half of its revenue from motor vehicle injury and workers compensation
2010	Acquired Adams Leyland Lawyers, which predominantly focusses on PI claims Announced \$40 million capital raising to fund acquisition of Trilby Misso Lawyers, a motor vehicle accident claims and workers compensations firm based in south-east Queensland
2011	Acquired Keddies Lawyers, a PI litigation firm based in NSW Acquired Conveyancing Works, a Queensland conveyancing firm
2012	Slater & Gordon entered the UK legal market through the acquisition of Russell Jones & Walker for ~\$80 million Granted regulatory licence to practice in UK, paving the way to complete RJW acquisition Acquired Hilliard & Associates, a Hobart based injury law firm
2013	Announced \$63.9 million capital raising to fund UK expansion and acquisition of Goodmans Law (Liverpool), PI practice of Taylor Vinters (Cambridge) and Simpson Millar (10 offices nationally). Simpson Millar acquisition did not eventuate Acquired John Pickering & Partners LLP, a UK asbestos litigation firm Acquired Fentons Solicitors, a leading UK personal injuries firm
2014	Acquired part of Pannone Solicitors, a UK consumer law firm based in Manchester and London Acquired Victorian PI law firm Nowicki Carbone and Queensland consumer law firm Schultz Toomey O'Brien
2015	Announces \$890 million capital raising to fund \$1,225 million acquisition of Quindell Acquired Leo Abse & Cohen, a consumer and specialist PI firm Acquired Walker Smith Way, a consumer law firm Company notified that ASIC intended to raise queries of the Company's accounts and appointment of Ernst & Young to independently assess responses to ASIC's queries British Chancellor announces PI claims reforms Profit guidance withdrawn, predominantly due to underperformance of segments of UK operations and Company's revised approach to financial forecasting
2016	Operational restructure and integration of PSD commences ASIC discontinues inquiries in relation to Slater & Gordon financial reports for the years ended 30 June 2014 and 30 June 2015 Shareholder class action served on Slater & Gordon ASIC served notices to produce documents relating to ASIC investigation into accuracy of financial records and accounts of the Company for the period 1 December 2014 to 29 September 2015
2017	ASIC investigation concludes with no enforcement action

Source: Slater & Gordon Management and ASX announcements

Appendix 4 – Industry overview

Personal Injury Law

Overview

PIL is the specialisation of providing advice and representation to individuals who have suffered a physical or psychological injury due to the actions or negligence of another individual. As a result of the injury sustained, individuals may be entitled by statutory or common law to make a claim for compensation. These PI claims can be broadly classified under three categories: motor vehicle accidents, workers compensation claims and other civil liability claims.

Unlike other legal services, the majority of PIL services are provided on a NWNF basis. Under this arrangement, a claimant will not be charged legal fees for work performed by their own solicitor if a claim is unsuccessful. However, if a claim is successful, the legal representatives will be entitled to recover their fees and, in some jurisdictions, an additional ‘success fee’ calculated as a percentage of the total legal fees.

As a subspecialty of the broader Australian personal legal services market, PIL accounts for approximately 24 percent of the market.⁵⁵ The Australian PI market is expected to grow to \$1.7 billion in revenue in 2017 and is expected to experience annualised growth of 0.9 percent through to 2022.⁵⁶ Approximately 76 percent of the PI market is located in NSW, Victoria and Queensland.

PIL in the UK is the second largest segment of legal services and is significantly larger than the Australian market. The UK PI market is estimated at £2.5 billion of revenue each year with almost 1 million individual cases reported in financial year 2015.⁵⁷ Similar to the Australian market, the majority of PI claims in the UK are motor vehicle related. In 2015, 76 percent of total claims were motor-related, with the balance predominantly attributable to public liability and employer liability, attributing 10 percent of total cases respectively.⁵⁸

Market structure

The Australian PIL market has continued to consolidate in recent years. Larger firms continue to expand through acquisition, increasing their client base and geographic footprint. Strong affiliations with trade unions have provided these larger firms a stable supply of PI work, allowing the firms to sustain revenue. In comparison, smaller, less profitable firms have been forced to exit the market or have consolidated through acquisition. This consolidation has led to an increased market share concentration and the emergence of three market leaders: Slater & Gordon, Shine and Maurice Blackburn.

⁵⁵ Personal Legal Services in Australia, IBISWorld Industry Report, March 2017.

⁵⁶ Personal and Workplace Injury Lawyers in Australia, IBISWorld Industry Report, April 2017.

⁵⁷ The future of legal services, The Law Society of England and Wales, January 2016.

⁵⁸ An Assessment of the Market for Personal Injury, A final report the Solicitors Regulation Authority, October 2016.

- *Shine* – Shine is an ASX listed company since 2013. Originally based out of Queensland, Shine has expanded through acquisition, establishing itself in NSW, Victoria and Western Australia. Shine specialises predominantly in PI and other compensatory law claims including class actions, professional negligence and human rights claims. The company reached total revenues of approximately \$165 million for FY17, of which \$129 million related to PI services, and estimates its market share in the PI sector is approximately 7 percent⁵⁹
- *Maurice Blackburn* – Established in Melbourne in 1919, Maurice Blackburn is a private law firm specialising in compensation claims and social justice. Unlike its two competitors, Maurice Blackburn has remained unlisted and has avoided acquisitions, growing the company and expanding revenue organically. With over 30 offices across Australia and approximately \$151 million in revenue, the company is estimated to have approximately 9 percent market share of the PI sector.⁶⁰

In the UK, there are over 800 law firms that specialise in PI, whereby at least 50 percent of a firm's annual revenue is generated by PI related services.⁶¹ In addition to specialist firms, there are approximately 2000 additional law firms in the UK that engage in the provision of PI related services, including case management and medical reporting.⁶² The market is highly fragmented with the majority of PI firms being small operations. This is evidenced by 44 percent of PI firms producing less than £500,000 in total revenue, while the next 22 percent of PI firms produce revenues ranging from £1.0 million to £3.0 million per annum.

Although the majority of firms are small, the PI market in the UK is a highly concentrated market as the largest 10 PI firms accounted for 25 percent of market revenue in 2013.⁶³ This is similar to the Australian market and it is predicted to have increased further in recent years to 30 percent given recent mergers and acquisition activity, consolidating the market further.⁶⁴

⁵⁹ Shine Corporate Annual Report 2017 and Investor Presentation 2017.

⁶⁰ Personal and Workplace Injury Lawyers in Australia, IBISWorld Industry Report, April 2017.

⁶¹ An Assessment of the Market for Personal Injury, A final report the Solicitors Regulation Authority, October 2016.

⁶² Ibid.

⁶³ Legal Services Board, 2013. Evaluation: Changes in competition in different legal markets.

⁶⁴ IRN Research, 2015. UK Personal Injury Market. UK Legal Market Briefing.

Key industry drivers

Motor vehicle accidents

Given motor vehicle accidents account for approximately 75 percent of the total PI market in Australia and the UK, the industry is driven heavily by the number of vehicle accidents. In recent years, fatal vehicle accidents have experienced a decline in both jurisdictions due to improvements in vehicle safety and greater enforcement of laws surrounding speeding and drink driving. In 2014, motor accident claims in the UK had decreased by a total of 7 percent since 2011,⁶⁵ whilst the number of road deaths have steadily declined to 2.8 deaths per 100,000 in 2014, from 5.6 deaths per 100,000 population in 2004.⁶⁶ In Australia, road deaths have also steadily decreased to 4.9 deaths per 100,000 population in 2014, falling from 7.9 deaths per 100,000 in 2004.⁶⁷

Nevertheless, this decline is expected to be partially offset in Australia by an expected increase in non-fatal accidents due to an increase in total vehicle registrations as a result of population growth. Total road related hospitalised injuries in Australia increased by approximately 24 percent over the 2004 to 2014 period.⁶⁸ In comparison, total road accidents in the UK have decreased almost 30 percent in the last 10 years.⁶⁹

Workplace related injuries

Workplace injuries form the second largest portion of PIL claims. Therefore the number of workplace injuries is a key driver for the Australian and UK PI market. Accidents within the workplace are also declining given the increasing work, health and safety regulation imposed upon employers. Government campaigns on the awareness of workplace safety is creating a decrease in work related accidents.

In conjunction with increased regulation, there is a structural shift towards service-based economies in Australia and the UK. Traditionally, the manufacturing sector provided the greatest exposure to dangerous machinery and hazardous equipment, therefore resulting in the highest rate of workplace accidents. With companies shifting manufacturing to locations with lower average wages, along with technological improvements and increased mechanical automation, Australian and UK jobs have been shifting away from manufacturing towards services, resulting in a reduced work accident rate per 1,000 employees. Total serious workplace accidents in Australia (defined as incidents resulting in over seven days absence), has fallen 16

⁶⁵ An analysis of the UK personal injury market, Weightmans.

⁶⁶ International road safety comparisons 2014, Bureau of Infrastructure, Transport and Regional Economics.

⁶⁷ Ibid.

⁶⁸ Road related hospital injuries, National Injury Surveillance Unit, Flinders University.

⁶⁹ UK Department of Transport.

percent in the last 5 years.⁷⁰ UK has experienced a similar decline with serious workplace accidents decreasing 11 percent in the last 5 years.⁷¹

Key industry trends

In recent years, the PI market has continued to consolidate in Australia, with leading firms, Slater & Gordon and Shine, acquiring a number of smaller firms over the last 5 years. Given the reduction in traffic and workplace accidents, this consolidation is expected to continue as less profitable firms are forced out of the market due to declining revenues, a changing statutory framework by legislative reform and an inability to compete with the established market leaders.

Brand awareness continues to emerge as a key factor in PIL. Given the success-based fee arrangements in PIL, new business is generally won through brand awareness and marketing. Therefore firms in the UK and Australia invest a significant portion of revenue to brand and marketing in order to compete with industry leaders.

The UK is also experiencing changes as the PI market continues to see firms diversifying service offerings and specialisations. A survey by the SRA found that 54 percent of respondent specialist PI firms were planning on diversifying into other areas of law within the next two years whilst 37 percent of respondents were planning on diversifying within PIL itself. The move towards diversification reflects the increasing cost pressures due to regulatory reforms and increased competition in the market as it reduces exposure to services with reduced margins and acts as a buffer during market turmoil. However, 9 percent of respondents expressed their intention to leave the PI market within the next two years.

Business structures for PI firms are also shifting. Since 2012, UK has enabled Alternative Business Structures (ABS) to exist for legal service providers. This allows non-lawyers to hold ownership or investment in law firms and allow multidisciplinary practice, including legal professionals working with particular non-legal professionals. It is becoming increasingly popular for ABSs to participate in the PI market, with nearly 4 in 5 ABSs being active in this market in 2015.⁷² It is estimated ABSs now account for approximately 30 percent of total PI revenue in the UK.

⁷⁰ Statistics on workers in Australia, Safe Work Australia.

⁷¹ UK Labour Force Survey.

⁷² An Assessment of the Market for Personal Injury, A final report the Solicitors Regulation Authority, October 2016.

Personal Legal Services

Overview

As at 2016, the Australian personal legal services market was approximately a \$7.1 billion market with approximately 9,000 service providers. The personal legal services market represents legal services provided to consumers, households and employees for incidents and transactions across a range of legal matters. The provision of personal legal services consists of four primary services:

- property law – conveyancing and other legal services related to property transactions and disputes
- family law – legal matters in the Family Court including divorce, child support and legal guardianship
- wills and estates – the legal services involved with the preparation of wills and the administration of the estate of a deceased person
- PIL – the legal services provided for a compensation claim in relation to injuries sustained due to the actions or negligence of another, as discussed earlier.

The Australian market for personal legal services is expected to continue to grow at an annual rate of 1.0 percent over the next five years reaching \$7.5 billion in revenue by 2022.⁷³ In the UK, personal legal services is approximately a £7.5 billion industry.⁷⁴

Market structure

The market for personal legal services in both Australia and the UK is highly fragmented, dominated by smaller firms and sole practitioners, with almost 10,000 unique businesses operating across Australia and the UK respectively. Given the diversity of legal disputes and transactions that occur across individuals and households, it is common for practitioners to specialise in a particular area. The largest firms in personal legal services in Australia include Slater & Gordon, Shine and Maurice Blackburn, though, together these firms have a market share under 10 percent. This is similar in the UK, with the larger law firms comprising around 5 percent or less of market share.⁷⁵ As smaller owner-operators continue to be pressured by the industry's largest players, many will incorporate a full service offering to cement their place in the industry.

⁷³ Personal Legal Services in Australia, IBISWorld Industry Report, March 2017.

⁷⁴ The future of legal services, The Law Society of England and Wales, January 2016.

⁷⁵ The future of legal services, The Law Society of England and Wales, January 2016.

Key industry drivers

Population size and age

Australia's ageing population is a key driver for personal legal services. As Australia's population continues to age, with more than 23 percent of the population projected to be over 65 by 2056,⁷⁶ the demand for wills is expected to increase. The demand for estate settlements and probate is also expected to be amplified with increased mortality rates as the population ages towards the average life expectancy for Australians. The population of the UK is very similar, with 24 percent of the population projected to be over 65 by 2039.⁷⁷ The general growth in the population for Australia and UK is also expected to foster positive demand for personal legal services given a growing base of individuals.

Divorce rates

Increasing divorce rates are another key driver for family legal services. The number of divorces in Australia is expected to increase annually by 0.6 percent over the next five years through to 2022.⁷⁸ Coupled with the increasing complexity of the division of assets and custody disputes in divorces, the demand for family legal services in Australia is expected to increase. In comparison, the divorce rate in the UK has been steadily decreasing and hit a 40 year low in 2013.

Property sales

The housing market also impacts demand for personal legal services. A strong Australian property market with increasing housing demand facilitates the continued increase in housing transfers. Australia experienced a decline of 0.6 percent in transfers between 2016 and 2017.⁷⁹ This growth is expected to decline in the next five years due to the imposition of more stringent lending conditions and the projected increase in interest rates. The UK property market suffered an approximate 50 percent decline in property sales in 2009, but has recovered strongly recording a 25 percent increase in prices in recent years.⁸⁰

Key industry trends

The trend towards full service firms in Australia is expected to increase competition. As a result, larger firms are expected to invest heavily in brand recognition and capitalise on varied service offerings. Therefore the number of establishments is expected to increase due to expanding networks and brands. This increase in competitive pressure will most likely have the largest impact on sole practitioners and smaller operators.

Changes in technology, including improvements in the provision of and access to online legal services is likely to affect non-contentious, non-complex, process driven work. This includes

⁷⁶ Australian Bureau of Statistics.

⁷⁷ Office for National Statistics.

⁷⁸ Personal Legal Services in Australia, IBISWorld Industry Report, March 2017.

⁷⁹ Personal Legal Services in Australia, IBISWorld Industry Report, March 2017.

⁸⁰ Office for National Statistics.⁸¹ Legal Services in Australia, IBISWorld Industry Report, March 2017.

online solutions to wills and conveyancing. This trend towards a greater use in digital legal solutions is likely to affect the margins available to smaller operators and could provide opportunities for larger firms with potential capital to invest market consolidation.

Business Litigation Services

Overview

The business and specialised legal services market provides commercial legal services to businesses and large corporates on commercial transactions and disputes. The legal services market in Australia is a \$23.1 billion industry and approximately 30 percent of this market comprises commercial law services (including intellectual property law).⁸¹

In Australia, the demand for commercial legal services has continued to decline in recent years, falling a further 2 percent in 2015,⁸² driven by declines in dispute resolution, banking & finance and corporate legal services. These practice groups represent approximately 48 percent of all commercial legal services provided in Australia.⁸³

Market structure

The market for business and specialised legal services in Australia is highly competitive and is structured in three tiers: large commercial firms servicing large corporates, mid-tier firms servicing large corporates to medium sized businesses and small firms servicing medium sized to small businesses. The top six commercial law firms in Australia, Allens, Ashurst, Clayton Utz, Herbert Smith Freehills, King & Wood Mallesons and Minter Ellison have an estimated 13 percent of the Australian Legal Services market. Some of the larger firms in Australia are headquartered in the UK including Ashurst and Herbert Smith and Allens' strategic partner, Linklaters.

Key industry drivers

Business confidence index

The business confidence index is a key driver for commercial legal services. A strong business confidence index indicates that businesses have a positive outlook on the future and are more likely to utilise commercial legal services and invest in activities that require such services. The business confidence index is expected to be positive in Australia for 2017. The business confidence index is currently 101.72 for Australia, which is above the OECD total index.⁸⁴

Economic conditions

The demand for particular commercial legal services is also highly dependent on the economic conditions and business environment. In periods of strong economic growth the demand for transactional commercial services, including Initial Public Offerings and mergers and

⁸¹ Legal Services in Australia, IBISWorld Industry Report, March 2017.

⁸² State of the Legal Market: Australia – 2015, Melbourne Law School.

⁸³ Ibid.

⁸⁴ The Organisation for Economic Co-operation and Development.

acquisitions, is high. In comparison, in economic downturns, businesses will require legal services involving restructuring, insolvency and bankruptcy.

Key industry trends

Large professional services firms are beginning to invest in the provision of commercial legal services, expanding their service offerings to clients. This trend is expected to continue, increasing competition in the market and reducing the available client base for larger corporate clients. Nevertheless, commercial legal services remain weighted towards brand recognition and reputation amongst clients. Therefore the industry will also experience increased business development and marketing expenditure due to the increasing competition in the market.

Complimentary Services in the UK

Medical report procurement services

Medical report procurement companies source medical reports for PI claims. The medical reporting market size is estimated to be £890 million per annum.⁸⁵ In 2015, the MedCo System was introduced in the UK to ensure medical reports in soft tissue claims were sourced without bias. Solicitors enter basic information of a claim into an online portal and are provided with a randomised list of experts qualified to provide medical reports. There are currently 165 operational Medical Reporting Operators employing 721 medical experts and servicing 2,184 authorised users.⁸⁶

A survey by ICF Consulting Services on behalf of the SRA, found that 83 percent of respondents used the MedCo System.⁸⁷ Nevertheless, 59 percent of respondents believe the relationships between firms, insurers and medical report providers have not improved and 68 percent of respondents feel the quality of reports has not improved from the introduction of the system.⁸⁸ The potential volume of the market is driven by the volume of PI claims handled. The drivers for PI claims are discussed under PIL.

Rehabilitation services

The private acute medical sector in the UK was approximately £6.4 billion in size in 2011 and has continued to grow.⁸⁹ Self-paying patients accounted for approximately 15 percent of revenue whilst approximately 56 percent came from private medical insurance. In the UK, 11 percent of the population has some form of private medical insurance and the demand for private treatment and insurance is expected to increase with growth in the ageing population. Nevertheless, PI claims registered decreased 3.3 percent in 2014 which drives demand for accident related rehabilitation services. The drivers for PI claims are discussed under PIL.

⁸⁵ Plimsolls Medical Legal Services business intelligence report, January 2017.

⁸⁶ MedCo Registration Solutions fact sheet, April 2017.

⁸⁷ An Assessment of the Market for Personal Injury, A final report the Solicitors Regulation Authority, October 2016.

⁸⁸ An Assessment of the Market for Personal Injury, A final report the Solicitors Regulation Authority, October 2016.

⁸⁹ The UK private health market, Commission on the Future of Health and Social Care in England.

Vehicle repair and hire services

Approximately 37 million vehicles were licensed for use on UK roads at the end of 2016, an increase of 2.4 percent in the last year, making it the second largest car market in Europe.⁹⁰ In 2016, 56 percent of first registrations were made by companies, though only 9 percent of total cars are company owned. Although vehicle registrations continue to increase, vehicle accidents have declined 30 percent over the last decade, as discussed under PIL. Nevertheless, the average cost of motor insurance claims continues to increase, rising 75 percent in recent years.⁹¹ The drivers for PI claims are discussed under PIL.

Regulation

The legal services industry is highly regulated and therefore regulation plays an integral role in the industry. Stringent regulation is imposed in Australia and the UK on a variety of elements of the legal industry and varies by jurisdiction, including state jurisdiction within Australia. Regulatory and legislative reform is therefore an integral consideration for legal services firms.

Recent reforms that have affected the legal services markets in Australia include:

- *workers' compensation legislation* – legislation introduced a threshold in Queensland based on a worker's Degree of Permanent Impairment which must be met before common law damages are available. Common law damages require that the injury was caused by negligence of another person. Queensland has the lowest threshold of all jurisdictions but some jurisdictions have abolished the worker's right to common law claims entirely
- *caps on general damages* – certain Australian jurisdictions have implemented maximum allowances for compensation for injured and permanent disability claims. The caps vary by jurisdiction and claim type
- *future loss of earnings calculations* – most Australian jurisdictions have legislated a formula to calculate the amount of compensation payable for future loss of earnings which usually includes a maximum amount payable based on average weekly earnings. The formula differs based on jurisdiction
- *accident compensation schemes* – certain Australian jurisdictions have introduced recent changes to compensation in relation to motor accidents, including:
 - New South Wales: the State Government amended compulsory third party insurance claims to provide no-fault statutory benefits for people injured in motor accidents and reduced quantum for damages, with an implementation date of 1 December 2017
 - Victoria: legislation was introduced in 2016 to improve benefits under current workers' compensation and transport accident compensation schemes, WorkSafe and Transport Accident Commission respectively. The amendment will progressively raise the pension

⁹⁰ Vehicle Licensing Statistics, Department for Transport, 2016.

⁹¹ Private motor insurance market investigation final report, Competition and Markets Authority, September 2014.

qualifying age and, thus, the maximum age for compensation. Family members of motor accident victims will be provided an additional capped amount of \$5,000 per claim for travel and accommodation expenses

- Queensland: the National Injury Insurance Scheme was launched in July 2016 to provide eligible persons who sustain serious personal injuries in a motor vehicle accident to receive necessary and reasonable lifetime treatment, care and support.
- *personal injuries legislation* – over recent years significant amendments have been introduced in Victoria to provide personal injury claimants with access to increased damages awards and compensation. The key changes include lowered impairment thresholds for certain injuries and increased caps on general damages, as well as allowing damages for the loss of capacity to care for others

Recent reforms or proposed reforms that have affected or may affect the legal services markets in the UK include:

- *ban on referral fees* – in April 2013, a ban on the payment and receipt of referral fees for PI claimants was introduced. Prior to the reform, referral fees were paid by legal firms and practitioners to third parties who referred claimants. The reform was aimed to reduce the cost of litigation and improve the quality of work provided by solicitors
- *success fees* – success fees as part of conditional fee arrangements are capped at 25 percent of damages recovered
- *reforming the soft tissue injury claims process* – in February 2017, The UK government confirmed its intention to raise the small claims track from £1,000 to £5,000 for road traffic accidents and from £1,000 to £2,000 for other PI claims, though this legislation has not yet been enacted
- *civil liabilities bill* – the UK government is expected to introduce legislation during the current term of parliament to enact reforms introducing a fixed tariff to compensate damages for road traffic accident whiplash claims and introduce a ban on offers to settle without medical evidence in whiplash claims. This bill replaces the prisons and courts bill published by the UK government in February 2017 which proposed the same reforms. The UK government's position remains that the reforms will be in place by October 2018 but this timetable may extend into 2019. Amendments to the proposals have occurred since first introduced and further changes remain possible
- *fixed recoverable costs for clinical negligence claims* – from January 2017 to May 2017, the UK government ran a consultation process seeking views on the proposal for a mandatory system of fixed recoverable costs for lower value clinical negligence claims in England and Wales, with the aim to improve the efficiency and cost-effectiveness of clinical negligence claims. With the consultation process closed, the UK government are currently analysing the feedback

- *rapid resolution and redress scheme for severe birth injury* – from March 2017 to May 2017, the UK government ran a consultation process seeking views on the proposed investigations into severe avoidable birth injury and the support and compensation scheme. The rapid resolution and redress scheme aims to introduce a system of consistent and independent investigations for all instances where there may be severe avoidable birth injury, along with access to ongoing support and compensation for eligible babies through an administrative scheme. With the consultation process closed, the UK government are currently analysing the feedback
- *discount rate for personal injury claims* - with effect from 20 March 2017, the Ogden discount rate was lowered by the UK Government for the first time in sixteen years from plus 2.5 percent to minus 0.75 percent in relation to personal injury damages. The reduced rate will require a higher initial lump sum in the calculation of compensation awards, resulting in lower earnings for motor insurers and higher premiums for customers. Following a consultation process, the UK government announced in September 2017 that it will put forward legislation to amend the way the discount rate is set, with a review to occur every three years by independent experts. It is expected this will result in an initial revision of the discount rate of between 0 – 1 percent, although the exact figure is uncertain.

Appendix 5 – Market evidence

Share market evidence

The following sets out the market metrics for listed companies engaged in legal or IP services.

Table 33: Sharemarket evidence – legal or IP services

Company name	Market Cap	EBITDA Multiple	
	\$m	LTM ¹	NTM ²
Legal services firms			
Shine Corporate Limited	126	4.5	4.2
Fairpoint Group Plc	7	1.6	n/a ³
Gateley (Holdings) Plc	286	13.5	11.6
IP services firms			
IPH Limited	872	11.8	10.8
Qantm Intellectual Property Limited	193	7.5	8
Xenith IP Group Limited	164	19.1	5.2
Murgitroyd Group Plc	71	7.4	n/a ³
Low		1.6	4.2
High		19.1	11.6
Median		7.5	8.0
Average		9.3	8.0

Source: Company financial statements and announcements, S&P Capital IQ (data as at 1 September 2017), KPMG Corporate Finance analysis

- Note:
1. Calculated using latest available financial statements
 2. LTM multiples calculated after normalisation adjustments applied to reported EBITDA
 3. NTM multiples calculated based on broker consensus forecasts
 4. n/a represents not available.

Description of comparable companies

A brief description of the selected comparable companies is provided below:

Shine Corporate Limited

Shine is a listed legal services company in Australia. Shine provide damages based plaintiff litigation services across two operating segments: PI (workers compensation, motor vehicle accidents, medical negligence and public liability) and EPA (land access, family law and others). Shine was founded in 1976 and listed on the ASX in May 2013. Shine is a direct competitor to Slater & Gordon in the Australian market with over 40 offices in Queensland, NSW, Victoria and Western Australia.

Fairpoint Group Plc

Fairpoint is a listed professional services firm in the UK. Fairpoint provides a number of services across four operating segments: individual voluntary arrangements, debt management plans, claims management and legal services. After an acquisition of Colemans Solicitors LLP in August 2015, legal services became Fairpoint's largest operating segment offering a range of consumer-focused legal services including PI, family, complex litigation and others. Fairpoint was founded in 1997 and listed on the AIM in the UK in December 2002. Fairpoint is a direct competitor to Slater & Gordon in the UK market with 12 offices in the UK.

Gateley (Holdings) Plc

Gateley is a listed legal advisory services firm in the UK. Gateley provides a number of legal advisory services across five operating segments: property, corporate, business services, banking and financial services and employee pensions and benefits. Gateley was incorporated in 2014 and listed on the AIM in the UK in June 2015. Gateley is not a direct competitor to Slater & Gordon in the UK but operates in the legal services industry with 10 offices in the UK and 1 office in Dubai. Similar to Slater & Gordon in Australia, Gateley was the first legal services firm to publically list in the UK.

IPH Limited

IPH Limited (IPH) is a listed IP services and products company in Australia. IPH provides IP services and data analytics software across three segments: IP Property Services Australia, IP Property Services Asia and Data and Analytics Software. IPH was founded in 1879 and listed on the ASX in March 2015. IPH is not a competitor to Slater & Gordon in Australia but operates in the legal services industry with a number of offices in Sydney and Asia. Similar to Slater & Gordon, IPH recognise their revenue using a percentage of completion method.

Qantm Intellectual Property Limited

Qantm Intellectual Property Limited (QIP) is a listed IP services company in Australia. QIP provides IP services across two segments: Australia and Asia. IP services relate to the creation, protection, commercialisation, enforcement and management of IP rights. QIP offers patents, trademarks and legal services, as well as patent attorney practice services. QIP was founded in 1879 and listed on the ASX in August 2016. QIP is not a competitor to Slater & Gordon in Australia but operates in the legal services industry with offices in Brisbane, Sydney, Melbourne and Adelaide. Similar to Slater & Gordon, QIP recognise their revenue using a percentage of completion method.

Xenith IP Group Limited

Xenith IP Group Limited (Xenith) is a listed IP services company in Australia. Xenith's IP services relate to the identification, registration, management, commercialisation and enforcement of IP rights in Australia, New Zealand and Pacific Islands. Xenith offers patents, trademarks and industrial design services. Xenith was founded in 1859 and listed on the ASX in November 2015. Xenith is not a competitor to Slater & Gordon in Australia but operates in the legal services industry and is the holding company of Griffith Hack, Shelston IP and Watermark, headquartered in Sydney. Similar to Slater & Gordon, Xenith recognise their revenue using a percentage of completion method.

Murgitroyd Group Plc

Murgitroyd Group Plc (Murgitroyd) is a listed IP services company in the UK. Murgitroyd's IP services relate to the filing, prosecuting, litigating, licensing, assigning, and renewing patents, trademarks, and designs to third party customers, as well as recharged disbursements. It also offers patent and trade mark attorney, and technical support services. Murgitroyd was founded in 1975 and listed on the AIM in the UK in November 2001. Murgitroyd is not a competitor to

SGH in the UK but operates in the legal services industry and operates in the UK, the United States, France, the Republic of Ireland, Italy, Germany, Japan, China, Taiwan, Canada, the Netherlands, and Switzerland. Similar to Slater & Gordon, Murgitoyd recognise their revenue using a percentage of completion method.

Transaction evidence

The following table sets out the implied EBITDA multiples from select transactions that were undertaken by Slater & Gordon and companies operating in the specialised legal services industry.

Table 34: Transaction evidence

			Acquisition	Implied EV	EBITDA Multiple	
Date	Target	Acquirer	stake	(\$ million) ¹	LTM ²	NTM ³
Slater & Gordon transactions						
May-15	Quindell Plc	Slater & Gordon (UK)	100%	1,352	6.9	n/a ⁴
Nov-14	Schultz Toomey O'Brien	Slater & Gordon	100%	20	n/a	n/a ⁴
Nov-14	Nowicki Carbone	Slater & Gordon	100%	46	n/a	n/a ⁴
Feb-14	Pannone LLP	Slater & Gordon (UK)	100%	61	n/a	n/a ⁴
Sep-13	Fentons Solicitors LLP	Slater & Gordon	100%	56	4.5	n/a ⁴
Apr-12	Russell Jones & Walker Ltd.	Slater & Gordon	100%	82	4.9	n/a ⁴
Aug-10	Trilby Misso	Slater & Gordon	100%	57	8.0	n/a ⁴
Law firm transactions						
Feb-17	Griffith Hack	Xenith IP Group	100%	163	10.5	n/a ⁴
Dec-15	Pryers Solicitors LLP	Pure Legal Limited	100%	27	4.8	n/a ⁴
Oct-15	Best Wilson Buckley Family Law	Shine Corporate Limited	100%	6	n/a ⁴	n/a ⁴
Aug-15	Bradley Bayly Legal	Shine Corporate Limited	75%	16	n/a ⁴	n/a ⁴
Aug-15	Colemans-ctts LLP	Fairpoint Group	100%	34	4.7	n/a ⁴
Oct-14	Sciaccas Lawyers Pty Ltd and Sciaccas Family Lawyers Pty Ltd	Shine Corporate Limited	100%	9	n/a ⁵	n/a ⁴
Jul-14	Emanate Legal and Stephen Browne Personal Injury Lawyers	Shine Corporate Limited; SB Law Pty Ltd	100%	36	n/a ⁴	n/a ⁴
Jun-14	Simpson Millar LLP	Fairpoint Group LLC	100%	27	3.6	n/a ⁴
Feb-14	New Law Group	Redde PLC	100%	81	n/a	n/a ⁴
Low					3.6	n/a⁴
High					10.5	n/a⁴
Median					4.9	n/a⁴

Source: Company financial statements and announcements, S&P Capital IQ, KPMG Corporate Finance analysis

- Note:
1. Implied EV refers to the total implied enterprise value in respect of the acquisition
 2. LTM multiples calculated based on EBITDA from most recently available results as at the transaction announcement date, after normalisation adjustments
 3. NTM multiples calculated based on broker consensus forecasts as at the transaction date
 4. n/a represents not available
 5. As per the ASX announcement released by Shine Corporate Limited, the initial consideration of \$8.75 million indicates an estimated 4 to 5 times of the FY15 EBITDA.

Description of comparable transactions

A brief description of the selected comparable transactions is provided below, with the exception of the PSD business acquisition from Quindell, which is discussed in detail in Section 9.

Slater & Gordon acquisitions

Acquisition of Schultz Toomey O'Brien by Slater & Gordon

On 31 October 2014, Slater & Gordon acquired Schultz Toomey O'Brien for a total consideration of \$19 million. The consideration comprised of an initial cash payment of \$15.2 million and equity consideration of \$3.8 million. Schultz Toomey O'Brien is a law firm based in Queensland. The acquisition expands family and personal law services and expects to achieve synergies.

Acquisition of Nowicki Carbone by Slater & Gordon

On 31 October 2014, Slater & Gordon acquired Nowicki Carbone for a total cash consideration of \$10 million. Nowicki Carbone is a specialised PIL firm based in Melbourne, Australia. Slater & Gordon retained approximately 100 employees from Nowicki Carbone. The acquisition furthers the PI practice and expects to achieve synergies post acquisition.

Acquisition of Pannone Solicitors LLP and related entities by Slater & Gordon

On 14 February 2014, Slater & Gordon acquired Pannone Solicitors and related entities, Androit Financial Planning Limited (Androit) and Pannone Trust Corporation Limited for a total consideration of \$59.6 million. The consideration consists of a \$37.6 million initial cash payment, 7.9 million of equity in ordinary shares and \$8.1 million in deferred cash consideration. Pannone Solicitors is a UK based law firm specialising in consumer law. Androit is a business specialising in financial planning. Pannone Trust Corporation is a dormant initially intended to act as administrator for appointments of fiduciary responsibility.

Acquisition of Fentons Solicitors LLP by Slater & Gordon

On 27 September 2013, Slater & Gordon acquired Fentons Solicitors for total consideration of \$56 million. The consideration comprises of an initial cash payment of \$43.2m, equity of \$6.8 million in ordinary shares and deferred cash consideration of \$5.9 million. Fentons Solicitors is UK based law firm specialising in PIL. The acquisition allows Slater & Gordon to diversify its personal injuries into a larger UK market and expect to achieve synergies with the Company. The acquisition intends to improve Slater & Gordon's brand and geographic coverage in consumer law across the UK.

Acquisition of Russell Jones & Walker by Slater & Gordon

On 30 January 2012, Slater & Gordon acquired RJW for a total consideration of \$82.5 million. The consideration comprises of \$41 million initial cash payment, equity of \$28.7 million and a deferred cash payment of \$12.8 million. RJW is a UK based law firm and the acquisition includes its subsidiaries New Claims Direct Limited, 4 Legal Limited & 4 Legal Solutions Limited. The firm had approximately 425 employees across 10 locations and specialised in PI

claims. The acquisition was Slater & Gordon's first UK acquisition and aligned with its strategy to expand operations to the UK.

Acquisition of Trilby Misso Lawyers by Slater & Gordon

On 13 August 2010, Slater & Gordon acquired Trilby Misso Lawyers for a total consideration of \$57.6 million. The consideration comprises of \$40.3 million initial cash payment, equity of \$5.3 million in ordinary shares and a deferred cash payment of \$12 million. Trilby Misso is an Australian law firm based in Queensland specialising in PIL. The transaction provides expanded geographic coverage and a growth platform in Queensland.

Law firm acquisitions

Acquisition of Griffith Hack by Xenith IP Group

On 2 February 2017, listed Australian company Xenith completed the acquisition of Griffith Hack for total consideration of \$152 million. The consideration comprises of \$83.6 million in cash and \$68.4 million in equity of Xenith. The transaction included additional earnouts of \$20 million to be funded by cash and equity based on Griffith Hack achieving targets. Griffith Hack is an Australian based law firm specialising in patent, trademark and IP. The firm had approximately 100 professionals and reported revenue of \$74.3 million for year ended 30 June 2016. The acquisition positions Xenith to develop into a leading IP service provider in the Asia Pacific region. It is expected to be earnings accretive.

Acquisition of Pryer Solicitors LLP by Pure Legal Limited

On 10 December 2015, Pure Legal Limited (Pure Legal), a UK based law firm acquired Pryers Solicitors LLP (Pryers). Pryers is also a law firm based in the UK that specialises in medical negligence and PIL. The law firm will be acquired for a total cash consideration of \$27 million, paid out over a period of time. Under the agreement, the existing management team will remain for a minimum of three years. Pryers had approximately 60 staff and provides Pure Legal with the ability to strengthen their practice in clinical negligence and product liability law.

Acquisition of Best Wilson Buckley Family Law by Shine Corporate Limited

On 16 October 2015, Shine acquired Best Wilson Buckley Family Law Pty Ltd for a total consideration of \$6.2 million. The consideration consists of \$2.65 million upfront cash component and \$2 million deferred payment, an earnout of up to \$0.8 million and scrip component is \$0.75 million. Shine will issue 0.36 million shares as consideration with 50 percent of the new shares held in escrow for 12 months following the issue date and 50 percent of the new shares held in escrow for 24 months following the issue date. The acquisition has been largely debt funded. The transaction is expected to be earnings and earnings per share accretive in financial year 2016.

Acquisition of Bradley Bayly Legal by Shine Corporate Limited

On 5 August 2015, Shine acquired the remaining 75 percent in Bradley Bayly Legal for \$13.3 million. The consideration includes cash component of \$8.3 million, deferred cash of \$4 million

and \$1 million in stock of Shine. The transaction is expected to be earnings and earnings per share accretive in 2016.

Acquisition of Colemans LLP by Fairpoint Group Plc

On 17 August 2015, UK listed company Fairpoint acquired UK based law firm Colemans LLP for a total consideration of \$34 million. The initial consideration of \$19 million will be paid up front, 90 percent in cash and 10 percent equity via ordinary shares in Fairpoint. An additional earnout component of \$15 million, comprised of two payments of \$7.5 million, will be based on financial performance and integration targets of Colemans LLP and paid equally in cash and common equity in Fairpoint. Colemans LLP operates across a number of business and personal law specialties. The firm complements former Fairpoint acquisition, Simpson Millar, allowing the group to expand its offering in the areas of family law, care home claims and private clients. It positions Fairpoint towards its goal of creating a top five consumer law firm and is expected to raise consumer legal services to 62 percent of the Group's revenue.

Acquisition of Sciacas Lawyers by Shine Corporate Limited

On 23 October 2014, Shine acquired Sciacas Lawyers Pty Ltd and Sciacas Family Lawyers Pty Ltd (Sciacas Lawyers) for \$8.8 million. Initial consideration will be \$8.75 million with deferred consideration subject to earn-outs linked to ongoing and increased financial performance of the acquired entities. The acquisition will be funded from Shine's existing cash and debt facilities. Sciacas' Founder, Con Sciacca agreed to enter into an employment contract with Shine as a condition of the acquisition and will continue in the business following completion. The acquisition will contribute to Shine's earnings from 1 July 2014, being the date the share transfer will take effect. The acquisition is expected to be earnings per share accretive in financial year 2015.

Acquisition of Emanate Legal and Stephen Browne Personal Injury Lawyers by Shine Corporate Limited and SB Law

On 12 June 2014, Shine and SB Law Pty Ltd (SB Law) acquired Emanate Legal and Stephen Browne Personal Injury Lawyers for \$36 million in cash and stock. As per the terms of the deal, cash consideration consists of \$23.5 million, out of which \$4.4 million is deferred payment, in addition to the cash component, scrip component is 1.9 million shares and potential earn out is \$8.5 million. The earn out payments are linked to earnings, work in progress and business pipeline growth. The deal will be funded via an entitlement offer worth \$29.45 million. Founder of Emanate Legal and the senior team will remain in business. The founder of Stephen Browne Personal Injury Lawyers, his fellow partner and senior management team will remain in the business. The acquisitions are expected to positively impact Shine Corporate Limited's cash flow cycle times and is expected to be immediately earnings per share accretive to Shine.

Acquisition of Simpson Millar LLP by Fairpoint Group Plc

On 17 June 2014, UK listed company Fairpoint acquired Simpson Millar LLP, a UK based law firm for total consideration of \$27 million. An initial \$16 million was paid up front, 78 percent cash consideration and the remaining 22 percent in equity in the form of Fairpoint shares. The transaction also includes an additional \$11 million earnout component based on the financial

performance of Simpson Millar to be paid equally in cash and common stock. Simpson Millar specialises in consumer legal services. The firm has over 250 employees across 13 offices in the UK and allows Fairpoint to diversify revenue.

Acquisition of New Law Group by Redde PLC (previously Helphire PLC)

On 28 February 2014, Redde PLC (Redde) (previously named Helphire PLC at the time of acquisition), a UK listed provider of replacement vehicles, acquired New Law Group for approximately \$80 million. Redde will pay an initial cash payment of \$45.5 million and additional earnouts of \$19.5 million based on the performance of New Law Group. The company will also assume debt of \$15.3 million with the acquisition. New Law Group is a UK based group of law firms headquartered in Cardiff specialising in PI and medical negligence law. The acquisition expands the range of legal services available to Redde's customer base and is expected to be earnings accretive.

Appendix 6 – Valuation methodology

Capitalisation of earnings

An earnings based approach estimates a sustainable level of future earnings for a business ('maintainable earnings') and applies an appropriate multiple to those earnings, capitalising them into a value for the business. The earnings bases to which a multiple is commonly applied include Revenue, EBITDA, EBIT and NPAT.

In considering the maintainable earnings of the business being valued, factors to be taken into account include whether the historical performance of the business reflects the expected level of future operating performance, particularly in cases of development, or when significant changes occur in the operating environment, or the underlying business is cyclical.

With regard to the multiples applied in an earnings based valuation, they are generally based on data from listed companies and recent transactions in a comparable sector, but with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued. The multiples derived for comparable quoted companies are generally based on security prices reflective of the trades of small parcels of shares. As such, multiples are generally reflective of the prices at which portfolio interests change hands. That is there is no premium for control incorporated within such pricing. They may also be impacted by illiquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (100 percent) we would also reference the multiples achieved in recent mergers and acquisitions, where a control premium and breadth of purchaser interest are reflected.

An earnings approach is typically used to provide a market cross check to the conclusions reached under a theoretical discounted cash flow methodology or where the entity subject to valuation operates a mature business in a mature industry or where there is insufficient forecast data to utilise the discounted cash flow methodology.

Discounted cash flow

Under a discounted cash flow methodology, forecast cash flows are discounted back to the Valuation Date, generating a net present value for the cash flow stream of the business. A terminal value at the end of the explicit forecast period is then determined and that value is also discounted back to the Valuation Date to give an overall value for the business.

In a discounted cash flow analysis, the forecast period should be of such a length to enable the business to achieve a stabilised level of earnings, or to be reflective of an entire operation cycle for more cyclical industries. Typically a forecast period of at least five years is required, although this can vary by industry and by sector within a given industry.

The rate at which the future cash flows are discounted (the Discount Rate) should reflect not only the time value of money, but also the risk associated with the business' future operations. This means that in order for a discounted cash flow to produce a sensible valuation figure, the importance of the quality of the underlying cash flow forecasts is fundamental.

The Discount Rate most generally employed is the Weighted Average Cost of Capital (WACC), reflecting an optimal (as opposed to actual) financing structure, which is applied to unleveraged

cash flows and results in an enterprise value for the business. Alternatively, for some sectors it is more appropriate to apply an equity approach instead, applying a cost of equity to leveraged cash flows to determine equity value.

In calculating the terminal value, regard must be had to the business' potential for further growth beyond the explicit forecast period. This can be calculated using either a capitalisation of earnings methodology or the 'constant growth model', which applies an expected constant level of growth to the cash flow forecast in the last year of the forecast period and assumes such growth is achieved in perpetuity.

Net assets or cost based

Under a net assets or cost based approach, total value is based on the sum of the net asset value or the costs incurred in developing a business to date, plus, if appropriate, a premium to reflect the value of intangible assets not recorded on the balance sheet.

Net asset value is determined by marking every asset and liability on (and off) the company's balance sheet to current market values. A premium is added, if appropriate, to the marked-to-market net asset value, reflecting the profitability, market position and the overall attractiveness of the business. The net asset value, including any premium, can be matched to the 'book' net asset value, to give a price to net assets, which can then be compared to that of similar transactions or quoted companies.

A net asset or cost based methodology is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies). A net asset approach is also useful as a cross check to assess the relative riskiness of the business (e.g. through measures such as levels of tangible asset backing).

Enterprise or equity value

Depending on the valuation approach selected and the treatment of the business' existing debt position, the valuation range calculated will result in either an enterprise value or an equity value being determined.

An enterprise value reflects the value of the whole of the business (i.e. the total assets of the business including fixed assets, working capital and goodwill/intangibles) that accrues to the providers of both debt and equity. An enterprise value will be calculated if a multiple is applied to unleveraged earnings (i.e. revenue, EBITDA, EBITA or EBIT) or unleveraged free cash flow.

An equity value reflects the value that accrues to the equity holders. To compare an enterprise value to an equity value, the level of net debt must be deducted from the enterprise value. An equity value will be calculated if a multiple is applied to leveraged earnings (i.e. NPAT) or free cash flow, post debt servicing.

Appendix 7 – Solvency definition and common law principals

Solvency Test

KPMG has assumed the following matters for the purpose of assessing solvency.

Corporations Law definition

Section 95A of the Corporations Act states:

- “a person⁹² is solvent if, and only if, the person is able to pay all the person's debts, as and when they fall due” (Section 95A(1)); and
- “a person who is not solvent is insolvent” (Section 95A (2)).

Case law guidance

Financial Position and commercial realities

Palmer J in *Southern Cross Interiors Pty Ltd (In Liq) v Deputy Commissioner of Taxation* provided some much needed guidance in determining solvency for the purposes of Section 95A:

‘ (i) whether or not a company is insolvent for the purposes of CA ss95A, 4598, 588FC, or 588G(1)(b) is a question of fact to be ascertained from a consideration of the company's financial position taken as a whole:

(ii) in considering the company's financial position as a whole, the court must have regard to commercial realities; commercial realities will be relevant in considering what resources are available to the company to meet its liabilities as they fall due, whether resources other than cash are realisable by sale or borrowing upon security, and when such realisations are achievable:

(iii) in assessing whether a company's position as a whole reveals surmountable temporary illiquidity or insurmountable endemic illiquidity resulting in insolvency, it is proper to have regard to the commercial reality that, in normal circumstances, creditors will not always insist on payment strictly in accordance with their terms of trade but that does not result in the company thereby having a cash or credit resources which can be taken into account in determining solvency:

⁹² ‘a person’ includes a company for the purposes of the definition.

(iv) *the commercial reality that creditors will normally allow some latitude in time for payment of their debts does not, in itself, warrant a conclusion that the debts are not payable at the times contractually stipulated and have become debts payable only upon demand;*

(v) *in assessing solvency, the court acts upon the basis that a contract debt is payable at the time stipulated for payment in the contract unless there is evidence, proving to the Court's satisfaction, that:*

- *There has been an express or implied agreement between the company and the creditor for an extension of the time stipulated for payment; or*
- *there is a course of conduct between the company and the creditor sufficient to give rise to an estoppel preventing the creditor from relying upon the stipulated time for payment; or*
- *there has been a well-established and recognised course of conduct in the industry in which the company operates, or as between the company and its creditors as a body, whereby debts are payable at a time other than stipulated in the creditors' terms or trade or are payable only on demand;*

(vi) *it is for the party asserting that a company's contract debts are not payable at the times contractually stipulated to make good that assertion by satisfactory evidence.*

'Surmountable temporary illiquidity' compared to insurmountable 'Endemic illiquidity'

"The concept of surmountable temporary illiquidity referred to in Palmer J's third proposition is frequently raised and from time to time relied upon judicially to support a finding against insolvency. I regard it as important to approach questions of illiquidity, whether temporary or endemic, in a way which does not depart from the terms of s 95A (1) and its reference to ability to pay all debts as and when they become due and payable; ability to raise money from assets and pay a debt before the creditor's patience is exhausted is not enough, in my opinion.

Section 95A....does not require that the debtor meet its liabilities only from the funds that it presently has available. A debtor may look to the proceeds from realisation of assets provided that the process could not extend the time when debts become due for the purpose of assessing insolvency. Bryson AJ, JTS Property & Investments No1 Pty Ltd v Sadri [2010] NSWSC 1384.

Debtors' ability to borrow

"It is no longer necessary in order to assess solvency to ascertain whether the company is able to pay all of its debts "from its own monies" In my opinion, s95A requires the Court to decide whether the company is able, as at the alleged date of insolvency, to pay all of its debts as they become payable by reference to the commercial realities. If the Court is satisfied that as a matter of commercial reality the company has a resource

available to pay all of its debts as they become payable then it will not matter that the resource is an unsecured borrowing or a voluntary extension of credit by another party.”

“The ability of the company to meet its debts as and when they fall due must be determined in the circumstances as they were known or ought to have been known at the relevant time, not in hindsight. There may be consideration as to the immediate future depending on circumstances including the nature of company's business and known future liabilities.”

“In considering a company's ability to pay debts “as they become due”, it is appropriate to consider the immediate future, precisely how far into the future being a matter that depends on circumstances including the nature of the company's business and, if known, the future liabilities. Giles JA, Lewis v Doran (2005) 219 ALR 555; 54 ACSR 410 [2005] NSWCA 243

Future profitability

“...nor is it appropriate to base an assessment of insolvency upon the prospect that a company might restore its financial position by trading profitably in future periods.”

Powell v Fryer [2001] SASC 59

Tests Applied

In assessing the solvency of the Company, KPMG has completed the following analyses:

- Review of the Trading Performance and Cash Flows (Section 10.2) including profit by division, abnormal and non-recurring items, cash flow analysis, and thus a cash flow test of solvency including assessing temporary illiquidity, realisation of assets and application of proceeds
- Review of the Financial Position (Balance Sheet) (Section 10.3) including assets available for immediate sale, working capital and quick asset position and trends, ageing of payables and receivables, further borrowings
- Financing analysis (Section 10.5) including facility agreements, drawn and undrawn facilities, and debt amortisation requirements
- Ability to raise equity (Section 10.5.5)
- Ability to raise debt secured against assets or unsecured
- Other considerations (Section 10.5):
 - Creditor payments including the Australian Tax Office (ATO), creditor arrangements, correspondence, payment plans, indulgences, unpaid amounts;
 - Audit opinions, and going concern; and
 - Consideration of Directors' minutes, reports to the Board.

Methodology

For the purpose of considering whether Slater & Gordon would be solvent immediately following the restructure or whether Slater & Gordon would likely become insolvent without the restructure, the following represents an overall summary of the approach taken:

- A consideration of the trading performance of Slater & Gordon over the period
- A consideration of the financial position of Slater & Gordon⁹³ as at 31 December 2016
- An assessment of any adjustments that ought to be made to the financial statements of Slater & Gordon in order to properly assess liquid assets, current assets and liabilities and net assets, including a consideration of any valuation reports concerning asset values;
- An assessment of trading arrangements, levels of creditors and any indulgences granted by creditors
- A consideration of any unused sources of finance available, assets available for sale, and existing arrangements with principal financiers; and
- A consideration of the information provided by the directors and management of Slater & Gordon and the documents in Slater & Gordon's possession.

⁹³ Having regard to the Deed of Cross Guarantee, ASIC Class Order, and Tax Arrangements.

Appendix 8 – Glossary

Abbreviation	Description
AASB	Australian Accounting Standards Board
AASB-15	AASB-15 Revenue from Contracts with Customers, AASB's standard relating to revenue recognition from contracts
ABS	Alternative Business Structures
ACT	Australian Capital Territory
AIM	Alternative Investment Market – a sub-market of the London Stock Exchange
Anchorage	Anchorage Capital Group LLC
Androit	Androit Financial Planning Limited
Annual General Meeting	Annual General Meeting of Slater & Gordon
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ATE	After The Event
ATO	Australian Taxation Office
AUD	Australian Dollar
Babscay Proceeding	Proceedings by Babscay Pty Ltd on behalf of persons who acquired an interest in shares of Slater & Gordon between 24 August 2012 and 19 November 2015 with a Federal Court of Australian proceeding number VID659 of 2017
BBSY	Australian base interest rate
British Chancellor	UK Chancellor of the Exchequer
BLS	Business Litigation Services
Board	The board of directors of the Scheme Company
Business Separation and Transitional Arrangements Agreement	The business separation agreement to be entered into between to be entered into between, among others, the Scheme Company, UK HoldCo and S&G UK in relation to the separation of the Scheme Company's Australian and UK Operations, in respect of which each party has duly executed its counterpart and is holding such counterpart in escrow until the implementation of Step 11 (Business Separation Agreement) of the Scheme
CAGR	Compound Annual Growth Rate
CFADS	Cash Flow Available For Debt Service
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash Generating Unit
Claims	Slater & Gordon Solutions Claims business unit
Client	Slater & Gordon Limited
CMC	Claims Management Companies
the Company	Slater & Gordon Limited
Convertible Note Facility	The secured convertible loan note facility to be entered into between S&G UK as issuer and the Scheme Senior Lenders as note holders in the form as agreed between the parties to that agreement
Corporations Act	Corporations Act 2001 (Cth)
Corporations Regulations	Corporations Regulations 2001 (Cth)
CY	Current Year
DCF	Discounted Cash Flow
Delaney Application (aka ACA Potential Claim)	Notification given by ACA Lawyers on behalf of Robert Delaney that Mr Delaney intends to commence representative proceedings in the Federal Court against the Scheme Company
Director	A director of Slater & Gordon

Discount Rate	The rate at which future cash flows are discounted under a DCF methodology
DLG	DLG Legal
EAFP	Equal Access Funding Proprietary Limited
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EBITDAW	Earnings Before Interest, Tax, Depreciation and Amortisation and movement in Work in progress
Effective	Coming into effect, pursuant to Section 411 (10) of the Corporations Act, of the Second Court Orders
Eligible Shareholders	Shareholders as at the Meeting Record Date
ELPL	Employer Liability and Public Liability
EOP	Employee Ownership Plan
EPA	Emerging Practice Areas
EPS	Earnings Per Share
Explanatory Memorandum	The explanatory memorandum to the Notice of Meeting for the Annual General Meeting which details the Recapitalisation
Fairpoint	Fairpoint Group Plc
Financial Conduct Authority	A financial regulatory body in the UK
FIRB	Foreign Investment Review Board
FNOL	First Notice of Loss
FY	Financial Year
Gateley	Gateley (Holdings) Plc
GBP	British Pound
GL	General Law
the Group	Slater & Gordon and its subsidiaries
Group Litigation	Class Actions or Collective Redress Action in the UK
Hall Proceeding	Shareholder class action seeking compensation for Shares purchased during the period 30 March 2015 and 24 February 2016, with a Federal Court of Australia proceeding number VID1213/2016 commenced by Matthew Hall against the Scheme Company
Hall Proceeding Claimants	Matthew Hall and the Group Members, as defined in paragraph 1 of the statement of claim dated 12 October 2016 filed in the Hall Proceeding
Hall Proceeding Settlement	The settlement of the Hall Proceeding pursuant to the Hall Proceeding Settlement Deed
Hall Proceeding Settlement Deed	The deed of settlement in respect of the Hall Proceeding Settlement announced to ASX on 21 September 2017
HY	Half Year
IER	Independent Expert Report
Implementation Date	The earlier of the: a) fifth Business Day after the Effective Date, except in the case where the Implementation Date would fall on a date between 24 December 2017 and 3 January 2018 (inclusive), in which case the Implementation Date will be 5 January 2018; and b) Sunset Date, but, in any event, not earlier than the Business Day after the Calculation Date
Incremental Facilities	The Super Senior AUD Incremental Facility and the Super Senior GBP Incremental Facility, collectively
IP	Intellectual property
IPH	IPH Limited
KPMG Corporate Finance	A division of KPMG Financial Advisory Services (Australia) Pty Ltd ABN 43 007 363 215, Australian Financial Services License Number 246901

LIBOR	London Interbank Offered Rate
LLP	Limited Liability Partnership
Long Term Incentive Plan	Slater & Gordon's Employee Ownership Plan
LTM	Last Twelve Months
Majority Supporting Lenders	Supporting Lenders who together hold more than 75 percent by value of the total aggregate amount of all outstanding senior debt
Management	Management team of Slater & Gordon
Managing Director	Formerly, Andrew Grech, currently vacant
Murgitoryd	Murgitoryd Group Plc
New Lender	Each individual secured lender
New Lenders Group	The collective of individual secured lenders
New AUD Super Senior Facility	A new AUD denominated \$65 million senior secured term loan facility made available to the Scheme Company under the New AUD Super Senior Subscription Agreement
New GBP Super Senior Facility	A new GBP denominated senior secured term loan facility to be provided by the Participating Senior Lenders pursuant to the New GBP Super Senior Facility Agreement for an aggregate principal amount equal to the GBP denominated commitments made available under the Super Senior GBP Incremental Facility
New Super Senior Facilities	The New AUD Super Senior Facility and the New GBP Super Senior Facility
NIHL	Noise Induce Hearing Loss
Notice of Meeting	Notice to Shareholders stating the date, time and place of the Shareholders' meeting
No Win, No Fee	A success fee arrangement whereby a law firm is paid only if a case is successful
NPAT	Net Profit After Tax
NSW	New South Wales
NTM	Next Twelve Months
NWC	Net Working Capital
NWNF	No Win, No Fee
OECD	Organisation for Economic Co-operation and Development
Officer	Has the meaning given to that term by section 9 of the Corporations Act, and includes any current or former director or officer of the Scheme Company
Permitted Claim	Claims in which there is no right for a Third Party to seek indemnity or contribution from Slater & Gordon or its Officers
PI	Personal Injury
PIL	Personal Injury Law
PIK	Payment In Kind
PLS	Personal Legal Services or Personalised Legal Services
Pryers	Pryers Solicitors LLP
Project Litigation	Slater & Gordon's Project Litigation team focusing on class actions and large litigations
Proof of Debt	Has the meaning given to it in clause 11.1(a) of the Scheme
PSD	Professional Services Division
Pure Legal	Pure Legal Limited
QIP	Qantm Intellectual Property Limited
Quindell	Quindell Plc
Recapitalisation	The proposal for Slater & Gordon to recapitalise the Company's equity and debt obligations as announced on 31 August 2017
Recapitalisation Resolution	Resolution to be put to Shareholders at the Annual General Meeting to be held on 6 December 2017 relating to the Recapitalisation
Released Person	The Company, its related bodies corporate and their related entities and any present and past officers, employees, servants or agents of these entities

Redde	Redde Plc
Restated SFA	Refers to the amended and restated SFA in respect of the SFA Facility
RG 111	ASIC's Regulatory Guide section 111 – 'Content of Expert Reports'
RJW	Russell, Jones and Walker
RSD	Restructuring Support Deed
RTA	Road Transport Accidents
S&G UK	Slater & Gordon (UK) 1 Limited
SB Law	SB Law Pty Ltd
Senior Lenders	Senior Lenders of Slater & Gordon
Scheme Administrators	Administrators of the Shareholder Claimant Scheme
Scheme Company	Slater & Gordon Limited
Scheme Fund	The total funds available to be distributed to all Shareholder Claimants which is based upon a \$32.5 million contribution from relevant Slater & Gordon insurers, less associated costs
Scheme Senior Lenders	Senior Lenders of the Scheme
Sciaccas Lawyers	Sciaccas Lawyers Pty Ltd and Sciaccas Family Lawyers Pty Ltd
Securityholders	Shareholders and Senior Lenders of Slater & Gordon, as a whole
Senior Lender Scheme	Creditors' scheme of arrangement with the scheme Senior Lenders to implement the Recapitalisation
Senior Lenders Explanatory Statement	Explanatory Statement to the Senior Lenders in respect of the Senior Lender Scheme
Serious Fraud Office	UK body which investigates and prosecutes serious and complex fraud
SFA	Syndicated Facility Agreement dated 29 May 2015 between Senior Lenders and Slater & Gordon
SFA Facility	The AUD denominated secured term loan facility "F" totalling \$119,226,456.17 plus the amount of any additional interest capitalised or accrued but unpaid under the Senior Facilities up to and including the Implementation Date, and made available to the Scheme Company under the Restated SFA
SGL-A	Slater & Gordon Lawyers Australia
SGL-UK	Slater & Gordon Lawyers United Kingdom
SGS	Slater & Gordon Solutions
SGSH	Slater & Gordon Health
SGSM	Slater & Gordon Solutions Motor
Share	Fully paid ordinary shares in the capital of the Scheme Company
Shareholder Claims	Any Claim against the Scheme Company arising from or in connection with any fact, matter, circumstance or event occurring at any time in the 6 year period on or before the Proof Lodgement Date and which arises: (a) in a person's capacity as: (i) a member of the Scheme Company (including as a Shareholder); or (ii) a holder or beneficiary (whether directly or indirectly) of any Security or Financial Product in the Company; or (b) from a person buying, acquiring, holding, selling, transferring, converting or otherwise dealing (whether directly or indirectly) in any Shares, Security or other Financial Product in the Company
Shareholder Claimants	Any person who has a Shareholder Claim, including, without limitation: a) the Hall Proceeding Claimants; b) those that, but for the exercise of a right to opt out of the Hall Proceeding, would be Hall Proceeding Claimants; and c) claimants in any proceedings or potential proceedings based on Related Shareholder Claims, including the Babscay Proceeding and the Delaney Potential Claim and those that, but for the exercise of a right to opt out of

	the Babsday Proceeding or the Delaney Potential Claim, would be Babsday Proceeding Claimants or Delaney Potential Claimants
Shareholder Claimants	An information booklet approved by the Court and including the Scheme and an explanatory statement in accordance with the Corporations Act
Explanatory Statement	Creditor's scheme of arrangement between Slater & Gordon and the Shareholder Claimants
Shareholder Claimant Scheme	Any claim against a Third Party arising from, or in connection with, a Shareholder Claim, including Permitted Claims and claims against Third Party respondents who may seek contribution or indemnity from the Company
Shareholder Third Party Claim	Shareholders of Slater & Gordon
Shareholders	Shine Corporate Limited
Shine	Shine Corporate Limited
Slater & Gordon	Slater & Gordon Limited
Small Ordinaries	S&P/ASX Small Ordinaries Index
SRA	Solicitor's Regulation Authority, a regulatory body for solicitors in England and Wales
SSP	Serious & Specialised Personal Injury
Super Senior AUD Incremental Facility	\$25 million AUD denominated tranche of additional funding to working capital facility
Super Senior GBP Incremental Facility	\$25 million equivalent GBP denominated tranche of additional funding to working capital facility
Super Senior Facility	Refers to the original Super Senior Facility under the original RSD
Super Senior Incremental Facilities	Refers to the additional \$50 million funding commitment on the Company's existing \$40 million working capital facility by the Senior Lenders as announced on 5 May 2017
Super Senior Secured Facilities	Refers to the aggregate of the Super Senior Facility, Super Senior AUD Incremental Facility, and Super Senior GBP Incremental Facility
Supporting Lenders	Lenders who collectively represent over 75 percent of the Company's secured debt by value and over 50 percent of the number of Senior Lenders
Third Party	Any person who is not a Released Person
UK	United Kingdom
UK HoldCo	The new UK holding company to which all UK operations and subsidiaries will be transferred on implementation of the Senior Lender Scheme
VCR	Vesting Convertible Redeemable
VWAP	Volume Weighted Average Price
WACC	Weighted Average Cost of Capital
Watchstone	Watchstone Group Plc (previously Quindell Plc)
Watchstone Entitlement Amount	The first \$40 million of the Watchstone Proceeds
Watchstone Proceeds	The net cash proceeds received from Watchstone (or any of its related entities or associates) in connection with the Watchstone Sale Agreement, including the release of any proceeds from any escrow account held in connection with the Watchstone Sale Agreement or any other proceeds received on account of settling any Claim against Watchstone or any other person in relation to the Watchstone Acquisition
WIP	Work in progress
Xenith	Xenith IP Group Limited
YoY	Year-On-Year



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PART TWO – FINANCIAL SERVICES GUIDE

Dated 27 October 2017

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by KPMG Financial Advisory Services (Australia) Pty Ltd **ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Corporate Finance is a division) (**KPMG Corporate Finance**) and Adele Thomas as an authorised representative of KPMG Corporate Finance, authorised representative number 404180 and Ian Jedlin as an authorised representative of KPMG Corporate Finance, authorised representative number 404177 (**Authorised Representative**).

This FSG includes information about:

- KPMG Corporate Finance and its Authorised Representative and how they can be contacted
- the services KPMG Corporate Finance and its Authorised Representative are authorised to provide
- how KPMG Corporate Finance and its Authorised Representative are paid
- any relevant associations or relationships of KPMG Corporate Finance and its Authorised Representative
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and the compensation arrangements that KPMG Corporate Finance has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Corporate Finance.

This FSG forms part of an Independent Expert's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

Financial services that KPMG Corporate Finance and the Authorised Representative are authorised to provide

KPMG Corporate Finance holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investment schemes including investor directed portfolio services;
- securities;
- superannuation;
- carbon units;
- Australian carbon credit units; and
- eligible international emissions units,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. The Authorised Representative is authorised by KPMG Corporate Finance to provide financial product advice on KPMG Corporate Finance's behalf.

KPMG Corporate Finance and the Authorised Representative's responsibility to you

KPMG Corporate Finance has been engaged by Slater & Gordon Limited (Client) to provide general financial product advice in the form of a Report to be included in the Notice of Meeting and Explanatory Statement (Document) prepared by the Client in relation to the Recapitalisation between the Client and Senior Lenders.

You have not engaged KPMG Corporate Finance or the Authorised Representative directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Corporate Finance nor the Authorised Representative are acting for any person other than the Client.

KPMG Corporate Finance and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As KPMG Corporate Finance has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

Fees KPMG Corporate Finance may receive and remuneration or other benefits received by our representatives

KPMG Corporate Finance charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Corporate Finance professional fees of \$575,000 for preparing the Report as stated in the Engagement Letter. KPMG Corporate Finance and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.

KPMG Corporate Finance officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). KPMG Corporate Finance's representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

Referrals

Neither KPMG Corporate Finance nor the Authorised Representative pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures KPMG Corporate Finance is controlled by and operates as part of the KPMG Partnership. KPMG Corporate Finance's directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Corporate Finance and the Authorised Representative and not by the KPMG Partnership.

From time to time KPMG Corporate Finance, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

KPMG entities have provided, and continue to provide, a range of audit, tax and advisory services to the Client for which professional fees are received. Over the past three years professional fees of \$679,363 have been received by KPMG Australia from Slater & Gordon. None of those services have related to the Recapitalisation or alternatives to the Recapitalisation.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the Recapitalisation.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let either KPMG Corporate Finance or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Corporate Finance or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:

Address: Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001

Telephone: 1300 78 08 08

Facsimile: (03) 9613 6399 Email: info@fos.org.au.

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

KPMG Corporate Finance has professional indemnity insurance cover as required by the Corporations Act.

Contact Details

You may contact KPMG Corporate Finance or the Authorised Representative using the contact details:

KPMG Corporate Finance

A division of KPMG Financial Advisory Services (Australia) Pty Ltd

Level 38, Tower 3, 300 Barangaroo Avenue
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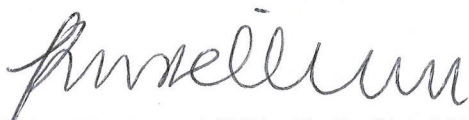
Facsimile: (02) 9335 7000

ANNEXURE E - CERTIFIED FINANCIAL STATEMENTS OF THE SCHEME COMPANY

SLATER AND GORDON LIMITED and CONTROLLED ENTITIES
ABN 93 097 297 400

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

I certify that this is a true copy of the Financial Report for the year ended 30 June 2017 of
Slater and Gordon Limited ABN 93 097 297 and its controlled entities.



Kirsten Morrison of 485 La Trobe Street Melbourne Victoria 3000
Company Secretary

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Chair's Report

Slater and Gordon's financial results for the year ended 30 June 2017 reflect continued underperformance across the UK and Australian operations. As announced in February 2017, the support of our lenders became fundamental during this period due to the size of the Company's debt relative to its market valuation. Accordingly the Company and its lending group began to work co-operatively towards a re-configuration of the Group's capital structure.

In June 2017 the Company announced it had entered in to a recapitalisation agreement with its lenders. The recapitalisation agreement and the additional funding which the Company's lenders agreed to provide under the amended agreement announced on 31 August 2017, will permanently reduce Slater and Gordon's debt to a sustainable level and is intended to provide a stable platform for the future operations of the Company. Regrettably the interests of existing shareholders will be significantly diluted and I and the Board are deeply sorry for this. The recapitalisation provides the best opportunity to secure the future of the firm, its clients and employees. Further details will be provided to Shareholders in the coming months.

A process of Board and senior management renewal was agreed as part of the recapitalisation process. Existing Board members, including myself, will resign as new appointments are made. Andrew Grech stood down from his position as Group Managing Director in June 2017. I would like to take this opportunity to thank James Millar and Tom Brown for their valuable service to the Board. Both joined in the midst of a challenging period for the Company and their wealth of experience was appreciated over the past financial year.

I would like to also thank Andrew Grech for his 23 year service to Slater and Gordon. Andrew will continue to be involved, for a short time, through his role as a Non-Executive Director on the Board. As also announced, Hayden Stephens will take on an expanded role as CEO of the Australian business and have responsibility for the Group functions and Ken Fowle will continue to lead the UK operations.

Slater and Gordon remains resilient, continuing to service the legal needs of hundreds of thousands of clients across the UK and Australia every year. While the past 2 years have no doubt been one of the most difficult periods in the firm's history, what remains in place is the commitment of our people to serving the needs of our clients. I would like to thank all staff in both the UK and Australia for their dedication and their hard work and sincerely wish them and the firm every success. This will be my last report as Chair of Slater and Gordon and it has been a privilege to serve in this capacity.



John Skippen
Chair

Operating and Financial Review

Review of Operations – Business Model

Overview

Slater and Gordon Group is a leading consumer legal services organisation with 1,140 staff operating in 51 locations across Australia and 3,070 staff operating in 20 locations across the United Kingdom (UK). The Company provides legal services in two main areas of consumer law – Personal Injury Law (including motor vehicle accidents, workers compensation/employers liability, industrial disease and civil liability law) and General Law (including family and relationship law, wills, estate planning, probate, business and specialised litigation, class actions, real estate, crime and regulation, employment, reputation and professional discipline). Slater and Gordon listed on the Australian Securities Exchange (ASX) in 2007 and expanded its operations into the UK in 2012. In FY17 the Company had three main operating segments: Slater and Gordon Lawyers Australia (SGL Australia) in Australia and Slater and Gordon Lawyers UK (SGL UK) and Slater Gordon Solutions (SGS) in the UK.

Business Model

Slater and Gordon's mission is to provide people with easier access to world class legal services. This is achieved by operating in segments of the legal market to which high levels of process and systems engineering can be applied to build operations of scale and capability that provide highly specialised services with a great deal of price certainty for clients.

Revenue is generated from providing legal and associated services to clients across Australia and the UK and is not reliant on any one key customer or case outcome. In FY17, 76% of fee and services revenue in Australia and 61% of fee and services revenue in the UK was derived from Personal Injury Law (PIL). Most PIL work is performed on a conditional fee basis ("No Win – No Fee") where legal fees are paid on the successful conclusion of a client's matter. In line with Australian accounting standards (AASB 15 *Revenue from Contracts with Customers*), PIL revenue is recognised over the life of a case using a stage of completion basis which relates to specific claim related milestones for each matter. Recognising revenue on this basis gives rise to a corresponding asset on the balance sheet – work in progress (WIP) that represents the value of work completed but unbilled at the end of the period. The majority of General Law (GL) work is conducted on a fee for service basis. Class actions are largely funded by third parties on a fee for service basis. The Motor Services and Health Services divisions of SGS earn services revenue by providing car hire and repair services and medical report procurement and rehabilitation services respectively.

Major Events during the Year

Bank Facility Amendments

During FY17 the support of the Company's lenders became fundamental to its continued operation. Several amendments were made to existing bank facilities in light of reduced performance expectations and liquidity concerns, but it became apparent as the year progressed that the Company needed to work with its lenders to consider recapitalisation options. The recapitalisation provided the best opportunity to secure the future of the firm, its clients and employees.

On 17 March 2017, the Company advised the ASX that in excess of 94% of its debt facility had traded from its original syndicate of par lenders to secondary debt buyers (the "New Senior Lenders") and that the New Senior Lenders intended to implement a solvent restructure of the Company. Later in March the New Senior Lenders agreed further amendments to the bank facilities including the capitalisation of A\$32m of interest payments otherwise due for payment on 28 June 2017.

Recapitalisation Agreement

On 29 June 2017, the Group announced it had entered into a binding recapitalisation agreement with its lenders and subsequently, on 31 August 2017, the Group announced it had signed an amended binding restructuring support deed with 100% of its secured lenders in relation to the recapitalisation. The recapitalisation is intended to provide the Group with a sustainable level of debt and support a stable platform for its future operations.

The terms of the recapitalisation agreement also provide the Group with additional liquidity support for its continued operation prior to and post the implementation of the recapitalisation in the form of an increase of \$50m to the Group's \$40m working capital facility which will be available prior to the recapitalisation. Key terms of the recapitalisation and liquidity support are detailed in note 5.2 Financing Arrangements.

The recapitalisation is expected to be completed in early December 2017 and is subject to a number of conditions precedent which are detailed at note 5.2.4 Recapitalisation Agreement. These include shareholder approval of the recapitalisation and the settlement of the shareholder class action detailed in note 8 Subsequent Events.

The Company's Directors unanimously support the revised terms of the recapitalisation. The Directors continue to hold the view that current levels of bank debt materially exceed total enterprise value and that the Company requires a holistic restructuring of its balance sheet. Therefore, in the absence of a superior proposal, the Directors believe that the recapitalisation is the best outcome available for shareholders and all stakeholders.

The recapitalisation will enable the Company to pursue its mission to provide people with easy access to world class legal services, with a stabilised balance sheet and sound operating platform. Shareholders will retain the opportunity to participate in future value creation and recovery as the Company pursues its strategic plan in Australia.

Operating and Financial Review

Board Renewal and Group Managing Director Resignation

Under the recapitalisation agreement, the existing Board has agreed to undertake a Board renewal process which will enable the New Lending Group, who will own approximately 95% of the Company's equity on implementation of the recapitalisation, to elect new directors. All existing directors will resign in due course as new directors are appointed.

Andrew Grech stood down from his position as Group Managing Director, effective 29 June 2017. Andrew remains a Non-Executive Director of the Company in the short term until a replacement has been appointed with the qualifications required to fill the role of legal practitioner director as required by the relevant provisions of the Legal Professions Act 2007 (Victoria) and equivalent provisions in the jurisdictions in which the Company conducts legal practices.

Shareholder Claims

During FY17, two shareholder class action proceedings were filed against the Company by former and existing shareholders.

As announced to the ASX on 11 July 2017 the Company has reached in principle conditional agreement to settle the class action proceeding brought on behalf of Mr Matthew Hall (the "Hall Proceedings") on terms which will resolve all shareholder claims against the Company, however they may arise. Whilst the settlement is subject to formal legal documentation and approval by the Federal Court, the agreed settlement terms are as follows:

- an agreed settlement amount of \$36.5m, of which \$32.5m will be made available by the Company's insurers;
- the settlement amount will be applied towards any shareholder claims against the Company, however they may arise, including any other claims or potential claims which have been, or which have not been, notified to the Company ("Shareholder Creditors");
- the settlement amount will be distributed to Shareholder Creditors, and all claims by Shareholder Creditors will be compromised, via a creditors' scheme of arrangement, subject to the requisite approval of Shareholder Creditors and the Court ("Shareholder Creditor Scheme"); and
- the settlement is without admission of liability by the Company.

The Shareholder Creditor Scheme, the Senior Lender Scheme and Court approval of the settlement terms for the Hall Proceedings will all be inter-conditional on each other.

Claim against Watchstone Group Plc

On 14 June 2017, the Company filed and served a claim in the High Court of England and Wales against Watchstone Group Plc for approximately £600m. The claim is based upon serious allegations against Watchstone and its then senior management, including fraud, concerning the purchase by Slater and Gordon in 2015 of business assets from Watchstone Group Plc (formerly known as Quindell Plc) which have since been rebranded as SGS. The litigation is currently in an early stage. Under the Share Purchase Agreement, the Company having obtained a positive merits based opinion from an independent barrister, £50m currently held in escrow against warranty claims will continue to be held in escrow until such claims are resolved.

Potential UK Legislative Changes

In November 2015, the "Autumn 2015 Chancellor's Statement" included proposals, which if implemented, would impact on the rights of people to obtain compensation in minor soft tissue injury claims. Changes to the compensation framework remain unpredictable both in terms of outcome and timing. The Company continues to work constructively with policy makers and other stakeholders with the goal of establishing stabilisation in the operating environment.

Intangibles Impairment

In the first half of the year ended 30 June 2017 the Company recognised an impairment charge of \$350.3m against the carrying value of UK intangible assets due to a downward adjustment to forecast performance in the UK. An additional \$11.0m intangibles impairment charge was recognised in the second half of the financial year in relation to the Australian operations.

ASIC Queries

On 20 December 2016, the Company was served by ASIC with two notices to produce documents. ASIC's queries focused on the accuracy of financial records and accounts of the Company for the period between 1 December 2014 and 29 September 2015.

As advised to the ASX on 24 March 2017, ASIC has concluded its investigation and advised the Company that there was no evidence of any breach of the law.

Operating and Financial Review

Review of Operations – Profit and Financial Position

A summary of Slater and Gordon's results for the year ended 30 June 2017 and the prior corresponding period are shown below.

	FY17 A\$m	FY16 A\$m
Total Revenue and other income	611.5	908.2
Net (Loss) After Tax	(546.8)	(1,017.6)
Net (Loss) After Tax – Normalised ⁽¹⁾	(75.2)	(48.7)
EBITDAW ⁽²⁾	(76.1)	(49.3)
EBITDAW – Normalised ⁽³⁾	15.7	36.6
Net Operating Cash Flow	(39.1)	(104.2)
Gross Operating Cash Flow – Normalised ⁽⁴⁾	10.2	(57.6)

⁽¹⁾ Normalised for AASB3 adjustments, non-recurring restructuring costs, additional debtor/disbursement provisioning, Hall settlement contribution, intangibles impairment, non-recurring finance cost, tax normalisations and other miscellaneous items.

⁽²⁾ EBITDAW is defined as earnings before interest, tax, depreciation, amortisation and movement in work in progress and is presented prior to non-cash impairment.

⁽³⁾ Normalised for AASB3 adjustments, non-recurring restructuring costs, additional debtor/disbursement provisioning, Hall settlement contribution and other miscellaneous items.

⁽⁴⁾ Gross Operating Cash Flow ("GOCF") is defined as net cash (utilised)/provided by operating activities before interest received, borrowing costs paid, income tax and payments to former owners. GOCF has been normalised for non-recurring restructuring payments to suppliers, redundancy costs and sale of business costs.

"EBITDAW", "EBITDAW – Normalised", "Gross Operating Cash Flow – Normalised" and "Net (loss)/profit after tax – Normalised" balances presented in this announcement are unaudited non-IFRS measures that, in the opinion of the Directors, are useful in understanding and appraising the Company's performance

The full year result was impacted by:

- a \$361.3m impairment charge against the carrying value of intangible assets, \$350.3m of which was recognised in relation to UK goodwill in the first half of the financial year;
- underperformance across the UK and Australian operations in relation to resolution of personal injuries claims;
- \$47.1m of non-recurring restructuring costs including consultants costs, redundancy and property rationalisation costs in both Australia and the UK;
- a negative net movement in Work In Progress ("WIP") of \$51.8m (FY16: \$41.3m);
- net finance costs of \$50.7m which included \$9.6m in facility amendment fees; and
- material labour, advertising and marketing cost savings secured across the business as a result of operational efficiency programmes.

The consolidated statement of profit or loss and other comprehensive income contains a number of transactions which have been normalised to provide greater clarity to the underlying operational results. The normalisation items for FY17 and the FY16 comparative period are:

- Impairment charge against the carrying value of intangible assets;
- Payments to former owners reclassified as remuneration under the new accounting treatment for deferred consideration under AASB 3;
- Non-recurring restructuring costs including consultants costs, redundancy costs and property rationalisation costs;
- Additional provisioning for debtors and disbursements following a thorough review of provisioning;
- The Company's contribution to the settlement of the Hall proceedings;
- Other miscellaneous items;
- Non-recurring finance costs; and
- Tax normalisations.

Operating and Financial Review

Review of Operations – Profit and Financial Position (continued)

The impact of these normalisations on Net (Loss)/Profit After Tax is as follows:

	FY17 A\$m	FY16 A\$m
Net (Loss)/Profit After Tax – Reported	(546.8)	(1,017.6)
Normalisation adjustments:		
Intangibles impairment charge	361.3	879.5
Payments to former owners	11.6	33.2
Non-recurring restructuring costs	47.1	33.3
Additional debtor/disbursement provisioning	18.0	18.7
Non-recurring finance costs	9.6	14.9
Other Items incl. Hall settlement & audit adjustments	15.1	0.7
Tax implications of above	(15.7)	(11.4)
De-recognition of tax losses	(7.9)	0.0
Write-back of deferred tax liability	32.6	0.0
Net (Loss)/Profit After Tax – Normalised	(75.2)	(48.7)

Total revenue and other income decreased by 32.7% due to reduced total revenue across all three main operating segments driven by underperformance in relation to resolution of personal injuries claims and the loss of two key contracts in SGS Motor.

This decrease was partly offset by material labour, advertising and marketing cost savings secured across the business as a result of operational efficiency programmes. SGL Australia, SGL UK and SGS segment results are discussed in more detail from page 6.

Total revenue in the consolidated statement of profit or loss and other comprehensive income includes an item shown separately as “Services revenue”. This amount represents the revenue associated with the SGS Motor and Health Services businesses. The “Cost of sales” line item also relates to the SGS Motor and Health Services businesses.

The largest component of operating costs are salaries and employee benefits. There are also material marketing and advertising expenses to support the Slater and Gordon suite of brands, with brand awareness being a key driver of client enquiries.

Cash Flow

Net operating cash flow was an outflow of \$39.1m for the year (FY16 outflow of \$104.2m). When normalised for non-recurring restructuring costs, gross operating cash flow (excluding net finance and tax payments/receipts and payments to former owners) was \$10.2m (FY16 outflow of \$57.6m).

Financial Position

A summary of key items relating to the Group’s financial position are provided below.

	30 June 2017 \$m	30 June 2016 \$m
Net (liabilities)/ assets	(248.8)	305.1
Net debt	747.7	682.3
Loan and overdraft facilities – £ denominated	376.0	376.0
Loan and overdraft facilities – A\$ denominated	130.0	94.0

Net Assets

The Group has net liabilities of \$248.8m at 30 June 2017, which has decreased from net assets of \$305.1m at 30 June 2016 due mainly to an intangibles impairment charge of \$361.3m primarily relating to the UK business, a negative \$72.6m movement in work in progress during FY17 and the impact of underperformance across the business.

The significant balance sheet items are: WIP – representing the value of work completed but unbilled, Receivables – including trade receivables and disbursements to support a client matter that are reimbursed at settlement, Borrowings – (see Debt section below) and lastly Payables – including trade payables and legal creditors where Slater and Gordon has arranged deferred conditional payment terms on behalf of the client in relation to the disbursements incurred on a client matter.

Operating and Financial Review

Debt

At 30 June 2017 gross debt was \$780.9m and net debt \$747.7m.

On 17 March 2017, the Company advised the ASX that in excess of 94% of its debt facility had traded from its original syndicate of par lenders to secondary debt buyers (the "New Senior Lenders") and that the New Senior Lenders intended to implement a solvent restructure of the Company. Later in March the New Senior Lenders agreed further amendments to the bank facilities including the capitalisation of A\$32m of interest payments otherwise due for payment on 28 June 2017.

As outlined above, on 31 August 2017 the Company announced that it had entered in to an amended binding restructure support deed ("RSD") with 100% of its secured senior lenders ("Senior Lenders") in relation to the recapitalisation of the Company.

Outstanding secured debt will be permanently reduced by a combination of releasing, refinancing and restating debt. The key terms of the recapitalisation and liquidity support are detailed in note 5.2 Financing Arrangements.

Dividends

Directors have not declared a dividend for the 2017 financial year.

Review of Operations – Segment Performance

A summary of revenue and earnings by segment is provided below.

Fee and Services Revenue ⁽¹⁾	FY17 A\$m	FY16 A\$m	Variance %
SGL Australia	226.7	265.6	(14.6)
SGL UK	157.8	230.0	(31.4)
SGS	268.8	437.2	(38.5)
Group	653.3	932.8	(30.0)

⁽¹⁾ Fee and services revenue is Revenue from contracts with customers less movement in WIP

(Loss) before tax and net finance expense	FY17 A\$m	FY16 A\$m	Variance %
SGL Australia	(67.2)	(100.9)	(33.4)
SGL UK	(98.5)	(64.4)	52.7
SGS	(334.7)	(822.6)	(59.3)
Group	(500.4)	(987.9)	(49.3)

EBITDAW – Normalised	FY17 A\$m	FY16 A\$m	Variance %
SGL Australia	15.5	35.9	(56.8)
SGL UK	(16.4)	(2.6)	530.8
SGS	16.6	3.3	403.0
Group	15.7	36.6	(57.1)

Slater and Gordon Lawyers Australia (SGL Australia)

Overview of Operations

SGL Australia is a leading provider of consumer legal services in Personal Injury Law and General Law. SGL Australia employs 1,140 staff across 51 locations.

The Australian Personal Injury Law (PIL) business provides legal services to clients in a range of areas including motor vehicle accidents, workers compensation and civil liability law. The PIL practice contributed 75.8% of SGL Australia's FY17 fee and services revenue.

The Australian General Law (GL) business is made up of Personal Legal Services (PLS) and Business and Specialised Litigation Services (B&SLS) practice areas. PLS comprises Family and Relationship Law, Wills, Estate Planning and Probate practices. Work is predominantly performed on a fixed fee basis. B&SLS comprises Commercial, Estate, Employment and Professional Negligence Litigation, Class or Group Actions and Criminal Defence work. The GL practice contributed 24.2% of SGL Australia's FY17 fee and services revenue.

The Australian consumer legal services market is highly regulated, with regulations varying state by state. SGL Australia has used its scale and strong brand awareness to successfully respond to legislative change as and when it arises.

Operating and Financial Review

Slater and Gordon Lawyers Australia (SGL Australia) Overview of Operations (continued)

FY17 Performance Review

- SGL Australia fee and services revenue decline of 14.6% was comprised of declines in both personal injury law (PIL) and general law (GL).
- PIL underperformance was due to a decline in case resolution rates.
- GL fee and services revenue was impacted by the closure of the conveyancing practice in late 2016, partly offset by a strong performance in class actions.
- Normalised EBITDAW was lower due to the decline in revenue partly offset by a reduction in operating expenditure.
- The net loss before tax and interest of \$67.2m includes a \$15.5m adverse movement in WIP, \$11.0m of intangibles impairment and \$50.3m of non-recurring restructuring costs, payments to former owners and provisioning.

Slater and Gordon UK

Slater and Gordon operates in the UK as Slater and Gordon Lawyers (SGL UK) and Slater Gordon Solutions (SGS) employing 3,070 staff across 20 locations.

In February 2016, the Group commenced a major UK performance improvement programme. A key component of this programme was a business reorganisation focused on establishing centres of excellence in serious and specialised personal injury, fast track personal injury and general law services as well as rationalising the provision of shared services across the UK. This business reorganisation is now largely complete, and performance improvement activities are now focused on productivity improvements.

SGL UK

Overview of Operations

SGL UK focuses on the provision of serious and specialised personal injury law and general law services.

The Serious and Specialised Practice (SSP) provides legal services to clients in a range of personal injury law practice areas including road traffic accidents and employers liability, as well as in specialist areas such as industrial disease, clinical negligence, abuse and travel claims. The practice also provides specialist services to member services organisations. The SSP contributed 70.6% of SGL UK's FY17 fee and services revenue.

The SGL UK General Law (GL) business is organised into three practice areas: Personal legal services – providing services such as employment, family law, residential property and crime; Business Law services – providing services such as Commercial Real Estate, Regulatory, Business advisory and dispute resolution; and Group Litigation.

FY17 Performance Review

- SGL UK fee and services revenue declined 17.0% in GBP terms due in part to the reduction in size of business following the business rationalisation programme.
- Normalised EBITDAW declined in GBP terms due to fee decline, partly offset by reduced labour and advertising costs.
- The net loss before tax and interest of \$98.5m includes a \$16.6m adverse movement in WIP connected with the planned transition of fast track claims from SGL UK to SGS Claims and \$16.7m of non-recurring restructuring costs.
- Despite a reduction in overall marketing investment, prompted brand awareness has continued to strengthen, with the SGL brand now recognised by 35% of UK survey respondents.

Slater Gordon Solutions (SGS)

Overview of Operations

SGS was acquired in May 2015 and is the leading fast track personal injury legal services provider in the UK, operating across the personal injury claims management value chain to provide claims, motor and health services. It is a collection of client focused businesses with systems and processes that have been designed to fully service the needs of the "not at fault" party who suffers loss or damage from an accident from one initial phone call.

There are three SGS operating businesses – Claims, Health and Motor Services. The Claims business deals with the origination, assessment and resolution of personal injury law claims with a focus on road traffic accidents. The Motor Services business provides accident management services to affinity groups for the benefit of road users. The services include co-ordination of the provision of temporary replacement vehicles and automotive repairs. The Health Services business provides rehabilitation and medical reporting solutions that may be required as part of a personal injury claim.

SGS is also currently progressing a legacy portfolio of noise induced hearing loss ("NIHL") claims acquired as part of the SGS acquisition.

Operating and Financial Review

Slater Gordon Solutions (SGS) Overview of Operations (continued)

FY17 Performance Review

- SGS fee and services revenue was down 25.5% in local currency terms compared to FY16 due mainly to reduced revenue from the Motor Services business after the loss of two (previously announced) key contracts and reduced fees from SGS Claims due to the deliberate reduction of road traffic accident (RTA) case intake.
- SGS delivered \$16.6m normalised EBITDAW in FY17. The improvement on FY16 performance was due mainly to improved performance in the noise induced hearing loss practice.
- The FY17 SGS net loss before tax and finance costs was \$334.7m. The primary driver of this was the first half goodwill impairment charge.

Business Strategy and Prospects

Business Strategy

The Group's core strategy is to execute an organisational transformation programme which will position both the UK and Australian operations for profitable growth. Comprehensive strategic and operational reviews are underway and operational efficiency programmes are being executed in the UK and Australia.

Risks

Achievement of the business strategy and objectives could be impacted by a number of risks. Those risks could, individually or together, have an adverse effect on the achievement of our objectives and associated prospects.

Risk is an accepted part of doing business and the Group recognises the importance of, and is committed to, embedding pro-active risk management strategies, capabilities and culture across the Group. The identification, mitigation and management of material risks, ensure where possible, the viability and sustainability of our business.

As part of its management processes and operating cycle, the Group regularly reviews material business risks, as well as plans to mitigate these risks, and discusses these plans with the Board.

Set out below are the principal risks and uncertainties associated with the Group that could possibly impact the achievement of our strategy and objectives. The risks and uncertainties are not listed in order of significance and do not comprise every risk we encounter in conducting our business or every risk that may affect the achievement of our strategy and objectives. Rather, they are the most significant risks that we believe we should be monitoring and seeking to mitigate or otherwise manage at this point in time.

Operating and Financial Review

Material Risks of the Group

Legislative Change Risk

The Group activities are subject to extensive regulation. Adverse regulatory or legislative changes may adversely impact the Group's operations, financial performance and position.

Comprehensive stakeholder engagement, informed discussion, government consultation to advocate our position, modelling of the potential impact of changes and business model and the optimisation of practice management service offerings are initiatives we use to monitor, manage and protect against potential legislative changes.

Operational Risk

There are a number of key risks which arise directly from the operations of the Group as a major participant in the Australian and UK legal services industry.

The Group's financial performance and position have been, and in the future may continue to be, impacted by these risks.

The Group has performance improvement programmes in place designed to standardise, centralise, optimise and promote efficient and innovative operating platforms, IT systems and people strategies.

Settlement of Class Actions, Recapitalisation, and Restructure Risk

The in principle agreement to settle class actions, recapitalisation and restructuring of the Board and shareholdings as announced in the ASX announcements of 31 August, 29 June and 11 July 2017 are major changes to the structure and to the operating model of the Group. Major changes of this nature carry high levels of implementation risk.

The Board and Senior Management are working closely with all stakeholders to ensure these changes are implemented with minimal disruption to the ongoing operations.

Financial Risk

There is risk that the Group will have a liquidity problem with insufficient funds to meet short term cash requirements in the months leading up to the recapitalisation. While the underlying cause of pressure in this area in FY16 and FY17 is that fee collection has not matched budget, the immediate risk is now assessed to be largely timing related for matters such as the collection of fees related to the Manus Island case.

Management is working with the Group's lenders to ensure that liquidity needs are monitored closely and arrangements are put in place where necessary to tide over short term liquidity needs.

Competition and Market Share

The Group operates in a competitive market which may adversely impact its financial performance and poses risk.

Relationship managers conduct proactive campaigns of reassurance and information sharing with our business partners that are deemed to be of high importance in terms of current business and securing future business.

Directors' Report

The Directors present their report, together with the financial report of the consolidated entity consisting of Slater and Gordon Limited ("the Company") and its controlled entities (jointly referred to as "the Group"), for the financial year ended 30 June 2017 and the auditor's report thereon. This financial report has been prepared in accordance with Australian Accounting Standards. Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards ("IFRS").

Directors

The directors in office at any time during the financial year and up to the date of this report are:

- John Skippen – Chair
- Andrew Grech (ceased as Group Managing Director 29 June 2017, continuing as Non-Executive Director)
- James M. Millar
- Tom Brown (appointed 1 September 2016)
- Ian Court (ceased as director 30 August 2016)
- Ken Fowle – Chief Executive Officer, UK (ceased as director 30 August 2016)
- Erica Lane (ceased as director 30 August 2016)
- Rhonda O'Donnell (ceased as director 27 February 2017)

Details of the skills, experience, expertise and special responsibilities of each Director are set out in the "Information on Directors and Company Secretaries" section of this report.

Principal Activities

The principal activity of the Group during the financial year was the operation of legal practices in Australia and the United Kingdom ("UK") providing legal services in two main areas of consumer law – Personal Injury Law and General Law.

Results

The loss after income tax of the Group was \$546.8m (2016: net loss after tax of \$1,017.6m).

Review of Operations

The review of operations is contained in the Operating and Financial Review as set out on pages 2-9.

Significant Changes in the State of Affairs

There have been no significant changes in the state of affairs of the Group other than those disclosed in the Operating and Financial Review.

Events Subsequent to Reporting Date

Other than the matters detailed in Note 1.1, Note 5.2 and Note 8 to the financial statements, there have not been any matters or circumstances that have significantly affected, or may significantly affect, the results reported in the financial statements.

For clarification, the implementation of the recapitalisation and Board renewal as contained in the Operating and Financial Review and the financial statements will occur subsequent to the Reporting Date.

Likely Developments

As part of the recapitalisation agreement, subject to the approval of the proposed scheme of arrangement, the Group will undertake a structural separation of the UK business from the Australian business. This is expected to occur in December 2017. Further details are included in the Operating and Financial Review.

The core strategy in Australia and the UK both prior to and after the proposed separation, is to implement an organisational transformation programme which will position both the Australian and UK operations for profitable growth. Comprehensive strategic and operational reviews are underway and operational efficiency programmes are being implemented.

Environmental Regulation

The Group's operations are not subject to any significant environmental regulations or laws in Australia or the UK.

Environmental, Social and Corporate Governance

Pursuant to ASX Corporate Governance Principle and Recommendation 7.4, which provides that companies disclose any material exposure to economic, environmental or social sustainability risks, the Company does not consider that the operations are materially exposed to environmental or social sustainability risk.

Information identifying risks related to the recapitalisation and restructure and legislative change and financial risks faced by the Company is contained in the Operating and Financial Review as set out on page 9.

Directors' Report

Environmental, Social and Corporate Governance (continued)

The Group will undertake a Board renewal process as part of the recapitalisation. All existing directors have agreed to resign in due course as new directors are appointed as nominated by the new lending group who will own approximately 95% of the Company's equity on implementation of the recapitalisation.

Dividends Paid, Recommended and Declared

The Group has not declared or paid any dividends in respect of the 30 June 2017 financial year.

The dividends paid and declared since the start of the financial year are as follows:

	2017 \$'000	2016 \$'000
<i>Dividends on ordinary shares</i>		
No interim dividend paid in 2017 (2016: No interim dividend paid)	-	-
No final dividend for 2016		
(2015: 5.50 cents partially franked (40%) at the tax rate of 30%)	-	19,330
	-	19,330

Share Options

Other than 2.3 million share options and 1.2 million performance rights granted to the Group Chief Financial Officer on 5 August 2016 as part of his Board approved retention plan (refer section 5.2.1 of the Remuneration Report), no options over unissued shares or interests in the Company were granted during or since the end of the financial year. There were no options outstanding at the end of the financial year.

Indemnification and Insurance of Directors and Officers and Auditors

During the financial year, the Group has provided an indemnity or entered an agreement to indemnify, and paid insurance premiums for a twelve-month period in respect of directors, officers and the company secretary of the Company against a liability brought against such an officer.

Further disclosure required under section 300(9) of the *Corporations Act 2001* is prohibited under the terms of the contract.

The Company has agreed (in certain circumstances) to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement. No payment has been made to indemnify Ernst & Young during or since the financial year.

Information on Directors and Company Secretaries

The skills, experience, expertise and special responsibilities of each person who has been a Director of the Company at any time during or since the end of the financial year is provided below, together with details of the company secretaries as at the year end.

John Skippen

ACA

Chair

Non-Executive Director

Experience

John has been a Board member since 2010 and Chair of the Board since 2012.

John has over 30 years' experience as a chartered accountant and was the former Executive Finance Director of Harvey Norman Holdings Ltd. John brings to the Board extensive financial, public company and retail experience and skills in financial management, general management, mergers and acquisitions and strategy.

Other Current Directorships

Non-Executive Director of Flexigroup Limited (ASX: FLX) (appointed November 2006)

Former Directorships

Non-Executive Director of Super Retail Group Ltd (ASX: SUL) (2008-2016)

Special Responsibilities

Chair – Board (current)

Member – Audit, Compliance and Risk Management Committee (current)

Member – Remuneration Committee (current)

Chair – Nomination Committee (current)

Directors' Report

Information on Directors and Company Secretaries (continued)

Andrew Grech

LLB MAICD

Group Managing Director

Experience

Andrew joined Slater and Gordon in 1994 and was appointed Managing Director in 2000. Before being appointed Managing Director, Andrew worked in most of Slater and Gordon's litigation practice areas, across both high profile class actions and individual compensation claims. Andrew brings to the Board extensive experience as a legal practitioner and law firm manager. Andrew commenced as a Non-Executive Director on 29 June 2017 upon ceasing as Group Managing Director.

Other Current Directorships

None

Former Directorships

None

Other Positions

Member of the Advisory Council of the Melbourne Law School (current)

Special Responsibilities

Member – Audit, Compliance and Risk Management Committee (current)

Member – Remuneration Committee (current)

Member – Nomination Committee (current)

James M. Millar AM

BCom (UNSW), FCA,
FAICD

Non-Executive Director

Experience

James was appointed a Director of the Company in December 2015.

James is a former Chief Executive Officer and Oceania Area Managing Partner of Ernst & Young (now EY) and was a member of the Ernst & Young Global Board. His career prior to the leadership roles at Ernst & Young was as a corporate reconstruction professional.

In 2012 James was appointed a Member in the General Division of the Order of Australia for service to Business & Commerce and for Community Leadership.

Other Current Directorships

Non-Executive Director – Fairfax Media Limited (appointed 2012)

Non-Director – Macquarie Media Ltd (appointed 2015)

Non-Executive Director – Mirvac Limited (appointed 2009)

Former Directorships

Non-Executive Director – Helloworld Limited (2010 – 2016)

Chair – Fantastic Holdings Limited (2012 – 2014)

Other Current Positions

None

Special Responsibilities

Chair – Audit, Compliance and Risk Management Committee (current)

Member – Remuneration Committee (appointed 27 February 2017 – current)

Member – Nomination Committee (appointed 27 February 2017 – current)

Directors' Report

Information on Directors and Company Secretaries (continued)

Tom Brown MA Non-Executive Director	Experience Tom Brown commenced as a Non-Executive Director on 1 September 2016 and Chair of the Remuneration Committee. Tom Brown is one of Australia's most senior HR Directors with more than 20 years' Board level experience across multiple industrial sectors. Tom has held senior executive positions in global listed companies including Mobil, BHP Billiton, Allied Domecq, Brambles and Rolls Royce in Europe, Africa, the USA and Australia including Board level experience across multiple industrial sectors including Oil and Gas, Mining, FMCG, Industrial Services, Utilities, Aeronautical and Marine. Tom has led transformation programs in both high growth and turnaround environments. Other Current Directorships Nil Former Directorships Board Member of Aero Engine Controls Chair of Rolls-Royce PLC's Common Support Functions Theme Board and its Community Investment and Sponsorships Board Advisory Board Member of Quest Non-Executive Director of the Homeless World Cup Special Responsibilities Chair – Remuneration Committee (current) Member – Audit, Compliance and Risk Management Committee (current) Member – Nomination Committee (current)

Ken Fowlie LLB BCom (NSW) MSc (with distinction) (LBS) MAICD Executive Director – ceased 30 August 2016	Experience Ken ceased as an Executive Director on 1 September 2016 and continued as Chief Executive Officer, UK. Ken joined the Company in 1995 and was appointed an Executive Director of the Company in 2003. Ken has extensive litigation experience particularly in claims for sufferers of asbestos related illness (including acting for the Australian Council of Trade Unions ("ACTU") and asbestos support groups in negotiations with James Hardie) and large, multi-party group and representative actions. Ken brings to the Board a unique operational perspective in a number of the Group's key strategic areas. As an Australian legal practitioner with close to 20 years' experience and qualifications and a strong interest in economics and business management, Ken contributes skills in legal practice, legal practice management, risk management, financial analysis, financial reporting and mergers and acquisitions. Ken was appointed Head of Australia in July 2013 and until May 2015 was responsible for the overall management of the Slater and Gordon Australian operation. In May 2015 Ken was appointed Chief Executive Officer - UK, incorporating Slater Gordon Solutions. Other Current Directorships None Former Directorships None Special Responsibilities Chief Executive Officer – UK

Directors' Report

Information on Directors and Company Secretaries (continued)

Ian Court

FAICD

Non-Executive Director –
ceased 30 August 2016

Experience

Ian ceased as a Non-Executive Director and Member of the Remuneration Committee on 30 August 2016.

Ian was appointed a Director of the Company in 2007 prior to the Company listing on the Australian Securities Exchange.

Ian has extensive experience as a senior executive and non-executive director in a diverse range of companies and industry sectors, including financial services, unlisted infrastructure, listed energy, superannuation, private equity and the property sector. Ian was inaugural president of the Australian Institute of Superannuation Trustees ("AIST"). Prior executive positions include CEO of Development Australia Funds Management Ltd (1998-2004) and Executive Chair of Cbus (1992-1998). Earlier in his career he was a senior industrial officer with the ACTU (1982-1992). Ian brings to the Board expertise and skills in finance, financial markets, business strategy, human resources, risk management and corporate governance.

Other Current Directorships

None

Former Directorships

None

Other Current Positions

None

Special Responsibilities

Member – Audit, Compliance and Risk Management Committee (ceased 30 August 2016)

Member – Remuneration Committee (ceased August 2016)

Erica Lane

B App Sc, Grad Dip Comp,
MBA (Melbourne),

MBA (Chicago),

MAICD

Non-Executive Director –
ceased 30 August 2016

Experience

Erica ceased as a Non-Executive Director, Chair Remuneration Committee and Member of the Audit Compliance and Risk Management Committee on 30 August 2016.

Erica joined the Board of the Company in 2008.

Since 2000, she has held various appointments in funds management, investment management, professional services and healthcare spanning both listed and non-listed environments and public and private sectors. She is an experienced member of Audit Committees and has chaired Nomination and Remuneration and IT Committees.

In addition to Board appointments, Erica consults extensively in the public and private sectors at CEO and Board level on a range of business issues. In an executive capacity, Erica held senior positions in finance, funds management and insurance at the ANZ bank and worked with international consultancy firms.

Other Current Directorships

None

Former Directorships

Wilson HTM Investment Group Limited (ASX: WIG) – Member, Audit/Risk and Nomination and Remuneration Committees (2013-2014)

Other Positions

None

Special Responsibilities

Chair – Remuneration Committee (appointed 1 July 2015 – ceased 30 August 2016)

Member – Audit, Compliance and Risk Management Committee (ceased 30 August 2016)

Directors' Report

Information on Directors and Company Secretaries (continued)

Rhonda O'Donnell

M App Sc, MBA (Melbourne)
Non-Executive Director –
ceased 27 February 2017

Experience

Rhonda ceased as a Non-Executive Director and Member of the Remuneration, Nomination, and Audit Compliance & Risk Management Committees on 27 February 2017. Rhonda joined the Board of the Company in 2013.

Rhonda has extensive experience in international and local industries including telecommunications, information technology, education, government and utilities. Rhonda has been a successful executive and Board member in both the private and public sectors. Rhonda has received several industry achievements including the award for the Victorian Telstra Business Woman of the Year in 1999.

Other Current Directorships

Non-Executive director, Catapult Group International Ltd (ASX: CAT) (appointed September 2014)

Former Directorships

None

Other Current Positions

None

Other Former Positions

None

Special Responsibilities

Member – Audit, Compliance and Risk Management Committee (ceased 27 February 2017)

Member – Remuneration Committee (ceased 27 February 2017)

Member – Nomination Committee (ceased 27 February 2017)

Bryce Houghton

B.Com
GCFO and Company
Secretary

Experience

Bryce joined Slater & Gordon as Group Chief Financial Officer in November 2015. He was appointed Company Secretary on 23 March 2016.

Bryce has 30 years of financial management experience with strong technical and treasury skills as well as substantial CFO experience in overseeing and development of systems, processes and resources. Before joining the Company, he served as CFO of Navitas Limited for 10 years, with prior experience as CFO with Evans & Tate Limited and senior management roles with Fonterra Cooperative Group and National Bank of New Zealand and Price Waterhouse in New Zealand.

Other Current Directorships

None

Directors' Report

Directors' Meetings

The number of meetings of the Board of Directors and of each Board committee held during the financial year and the number of meetings attended by each director were:

	Board of Directors		Audit, Compliance and Risk Management Committee		Remuneration Committee		Nomination Committee		Special Board Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
A Grech	22	22	-	-	-	-	-	-	10	10
K Fowlie	3	3	-	-	-	-	-	-	2	2
J Skippen	22	22	5	5	4	4	3	3	10	10
I Court	3	3	1	1	1	1	-	-	-	-
E Lane	3	3	1	1	1	1	-	-	-	-
R O'Donnell	14	14	3	3	4	4	2	2	-	-
J Millar	22	22	5	5	1	1	3	3	10	10
T Brown	19	18	2	2	4	4	1	1	-	-

Directors' Interests in Shares

Directors' relevant interests in shares of the Company as at the date of this report are detailed below.

	Ordinary Shares of the Company	Performance Rights
A Grech	7,000,656	-
I Court	35,804	-
K Fowlie	5,646,221	16,000
E Lane	170,000	-
J Skippen	100,000	-
R O'Donnell	25,000	-
James M. Millar	20,000	-
Tom Brown	-	-

Directors' Interest in Contracts

Directors' interests in contracts are disclosed in Note 6.1 to the financial statements.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 in relation to the audit for the financial year is provided with this report.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-Audit Services

Written approval for non-audit services is provided by resolution of the Audit, Compliance and Risk Management Committee and approval is notified to the Board of Directors. Non-audit services provided by the auditors of the Group during the year are detailed below. The directors are satisfied that the provision of the non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Directors' Report

Non-Audit Services (continued)

During the year, the following fees were paid or payable for non-audit services provided by the current auditor of the parent entity, Ernst & Young, and its related practices:

	2017 \$
Other Advisory	
• Ernst & Young	19,923
Total remuneration for non-audit services	19,923

Rounding of Amounts

The amounts contained in the Directors' Report and financial report have been rounded to the nearest thousand dollars (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the Class Order applies.

The Directors' Report and accompanying Audited Remuneration Report is signed in accordance with a resolution of the Directors.



John Skippen

Chair

Melbourne

31 August 2017

Directors' Report

Audited Remuneration Report

Contents

Section	Title	Description
1.0	Introduction	Describes the scope of the Remuneration Report and the individual Board and executive Key Management Personnel ("executive KMP") whose remuneration details are disclosed.
2.0	Remuneration Governance	Describes the role of the Board and the Remuneration Committee ("RC"), and the use of remuneration consultants when making Board and executive KMP remuneration decisions.
3.0	Non-Executive Director Remuneration	Provides details regarding the fees paid to Non-Executive Directors ("NEDs").
4.0	Executive Remuneration	Outlines the principles applied to executive KMP remuneration decisions and the framework used to deliver the various components of remuneration, including explanation of the performance and remuneration linkages.
5.0	Key Management Personnel Equity	Provides details regarding the Group's executive KMP equity plans and KMP shareholdings, including the information required by the Corporations Act 2001 and applicable accounting standards.
6.0	Service Contracts and Employment Agreements	Provides details regarding the contractual arrangements between the Group and the executive KMP whose remuneration details are disclosed.

Directors' Report

Audited Remuneration Report (Continued)

1. Introduction

The Group is a leading international consumer law firm employing 4,210 people across more than 70 locations in Australia and the United Kingdom. Our mission is to provide people with easier access to world class legal services. The Board has adopted contemporary executive remuneration strategies to reward executives fairly, in a competitive environment. Policies are also flexible enough to enable Slater and Gordon to attract, motivate and retain competent executives in a number of locations.

The Board's philosophy and approach to executive remuneration has been to balance fair remuneration for skills and expertise, with a risk and reward framework aligned to business performance.

The remuneration policies in respect of the Group's executive KMP are reviewed annually. In reviewing remuneration for the Board and executive KMP for FY17, changes have been made to address both shareholder concerns following the first strike in relation to the remuneration report at the 2016 AGM, and also, to ensure that remuneration policy is aligned with the business priorities necessary for continued transformation, successful financial restructure, and achievement of financial performance targets, within the new business environment.

This past year has again been challenging for the Group given the performance of the business, the decline in shareholder value, and the renegotiation of the Group's financial arrangements. This environment has had a direct impact on the reward of executive key management personnel (KMP), many of whom are also significant shareholders. Within this context, the Board believes the Group's approach to remuneration is balanced, fair and equitable. The Group has balanced the need for the conservative approach in recognition of the current challenges, with the need to retain key personnel who are central to driving the transformation of the business as it goes through a major capital restructure. The future success for the Group, during what represents a challenging period, will continue to rely upon the capability, motivation and performance of our staff.

1.1. Scope

This Remuneration Report sets out the remuneration arrangements in place for the Board and executive KMP of the Group during FY17, in accordance with the relevant provisions of the Corporations Act 2001 and the applicable accounting standard requirements.

1.2. Actions Taken in Relation to First Strike in 2016

At the Annual General Meeting (AGM) in November 2016, 44.8% of votes were cast against acceptance of the remuneration report for FY16. Based on feedback received, and consideration of the position of the Group following the AGM, the following changes were adopted during FY17:

- At the November 2016 AGM, shareholders approved the granting of performance rights to the Group Managing Director (GMD). Subsequent to the AGM, the executive KMP elected not to accept any allocations of performance rights, and as a result the Board decided not to grant any rights to the GMD, or other executive KMP for FY17
- At the November 2016 AGM, shareholders approved the design of the Deferred Service Rights Plan which may provide an allocation of deferred service rights to the GMD. Following the AGM, the executive KMP requested not to receive equity allocations for FY17, therefore, participation in this plan was not offered to the GMD, or to other executive KMP
- Significant changes were made to FY17 STI plan, increasing the focus on financial measures and enhancing the relationship between executive reward and financial performance / shareholder value.

During FY18, the Group is undertaking a major financial restructure of the business. In conjunction with this, there will be a focus on the strong alignment of the future reward arrangements for executive KMP with the future performance of the Group.

Directors' Report

Audited Remuneration Report (Continued)

1.3. Key Management Personnel (KMP)

KMP have authority and responsibility for planning, directing and controlling the activities of the Group and comprise the Non-Executive Directors (NED) and executive KMP (being the executive director and other senior executives named in this report). All KMP are based in Australia, except for Ken Fowle who is based in the United Kingdom. Details of the KMP during FY17 are set out below:

Name	Title	Change during FY17	Country of Residence
Non-Executive Directors			
John Skippen	- Chair of the Board - Non-Executive Director - Chair – Nomination Committee - Member – Audit Compliance and Risk Management Committee - Member – Remuneration Committee	Became member of the Remuneration Committee on 22 September 2016	Australia
Tom (Thomas) Brown	- Non-Executive Director - Chair – Remuneration Committee - Member – Audit Compliance and Risk Management Committee - Member – Nomination Committee	Commenced as Non-Executive Director and appointed as Chair, Remuneration Committee on 1 September 2016 Became member Audit, Compliance and Risk Management Committee and the Nomination Committee from 27 February 2017	Australia
James M. Millar	- Non-Executive Director - Chair – Audit Compliance and Risk Management Committee - Member – Remuneration Committee - Member – Nomination Committee	Became member of the Remuneration Committee on 27 February 2017	Australia
Erica Lane	- Non-Executive Director - Chair – Remuneration Committee - Member – Audit Compliance and Risk Management Committee	Retired as Non-Executive Director, Chair Remuneration Committee, and Member of Audit Compliance and Risk Management Committee on 30 August 2016	Australia
Ian Court	- Non-Executive Director - Member – Remuneration Committee	Retired as Non-Executive Director and Member, Remuneration Committee on 30 August 2016	Australia
Rhonda O'Donnell	- Non-Executive Director - Member – Audit Compliance and Risk Management Committee - Member– Remuneration Committee - Member – Nomination Committee	Retired as Non-Executive Director and Member of the Remuneration, Nomination, and Audit Compliance and Risk Management Committees on 27 February 2017	Australia
Andrew Grech	Non-Executive Director	Commenced as Non-Executive Director on 29 June 2017 upon ceasing as Group Managing Director	Australia
Executive Directors			
Andrew Grech	Group Managing Director	Ceased as Group Managing Director and Executive Director on 29 June 2017. Commenced as a Non-Executive Director on same date.	Australia
Ken Fowle	Chief Executive Officer, UK	Retired as Executive Director on 30 August 2016. Remains CEO UK	United Kingdom
Other Executive KMP			
Ken Fowle	Chief Executive Officer, UK	Continued as CEO UK from 1 September 2016	United Kingdom
Bryce Houghton	Group Chief Financial Officer	Full year	Australia
Hayden Stephens	Chief Executive Officer, Australia	Full year	Australia

Directors' Report

Audited Remuneration Report (Continued)

2. Remuneration Governance

This section of the Remuneration Report describes the role of the Board and the Remuneration Committee (RC), and the use of remuneration consultants when making Board and executive KMP remuneration decisions.

2.1. Role of the Board and the Remuneration Committee

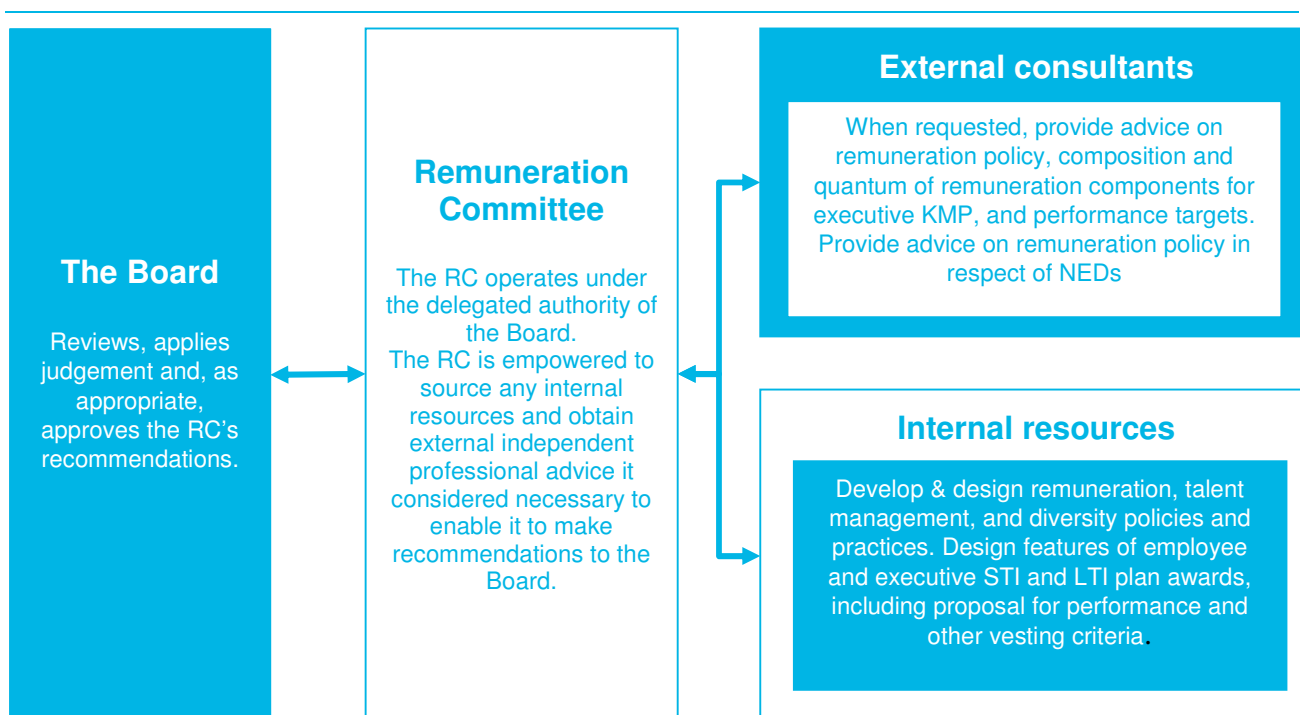
The Board has overall responsibility for Slater and Gordon's remuneration strategy and policy. Consistent with this responsibility, the Board has established the RC, comprised solely of independent NEDs.

Full details of the role, responsibilities, membership, and terms of reference of the RC is set out in its Charter, which can be viewed in the Governance section of the Company's website, www.slatergordon.com.au. As part of the annual review process, the Charter was last revised and approved by the Board on 24 February 2017.

During the reporting year, the RC's role included:

- ensuring that appropriate procedures exist to assess the remuneration levels of the Chairman, other NEDs, executive KMP, Board committees, and the Board as a whole;
- ensuring that the Group meets the requirements of the ASX Corporate Governance Council's Guidelines, including gender diversity principles and recommendations;
- ensuring that the Group adopts, monitors and applies appropriate remuneration policies and procedures;
- ensuring that reporting disclosures related to remuneration meet the Board's disclosure objectives and all relevant legal requirements;
- developing, maintaining and monitoring appropriate talent management programs and policies, including succession planning, diversity, recruitment, development, retention, termination policies and procedures for senior management; and
- developing, maintaining and monitoring appropriate post-employment and other benefit arrangements for the Group.

The RC's role and interaction with Board, internal and external advisors for FY17, is illustrated below:



Directors' Report

Audited Remuneration Report (Continued)

2.2. Use of Remuneration Consultants

During FY17, a remuneration consultancy contract was entered into by the Group for the provision of general support to the Remuneration Committee and the Board, however no remuneration recommendations were requested, or received by the Board. Details of this consultancy are set out as follows:

Advisor / Consultant – FY17	Services Provided	Remuneration consultant for the purpose of the Corporations Act
Crichton & Associates Pty Limited, Independent Remuneration Consultant	Provided general support to the RC in reviewing agenda items. No remuneration recommendations were provided during FY17	No

If the Group had sought independent remuneration advice, it has an established protocol for procuring advice relating to KMP remuneration. The protocol requires that the Board provides written instructions to the consultant with a specified scope of works and requiring that the consultant report all findings to the Board in writing free of any interference from executive KMP. During FY17, the Board did not receive any written report containing remuneration recommendations from Crichton & Associates. The Board is satisfied that the remuneration information provided was free from any undue influence from executive KMP, as the protocol for procuring advice relating to KMP remuneration has been followed.

Crichton & Associates was paid \$13,734 for remuneration services provided during FY17.

3. Non-Executive Director (NED) Remuneration

3.1. NED Remuneration

Principle	Comment
Fees are set by reference to key considerations	Fees for NEDs were set and approved at the 2015 AGM, and are based on the nature of the NEDs work, their responsibilities and anticipated time commitment. The remuneration paid is intended to reflect the complexity of the business and its geographic spread. In determining the level of fees, independent survey data on comparable companies (ASX listed companies of similar size) was considered at the time of the review. NEDs fees are recommended by the RC and determined by the Board.
Remuneration is structured to preserve independence while creating alignment	To preserve independence and impartiality, NEDs are not entitled to any form of incentive payments including options and the level of their fees is not set with reference to measures of the Group's performance.
Aggregate Board and Committee fees are approved by shareholders	Shareholders approve the aggregate amount available for the remuneration of NEDs. The current aggregate Board and Committee fee pool is unchanged from that approved by shareholders at the 2015 AGM. The total amount of fees paid to NEDs in FY17 was \$722,231 in total which is 76% of the approved aggregate annual fee pool.

3.2. NED Fees and Other Benefits

The aggregate board fee pool is unchanged from that approved by shareholders at the 2015 AGM, and has applied from 1 July 2015, with chair and member fees for FY17 (inclusive of superannuation) on an annualised basis as detailed in the following table. There was no change in NED fees for FY17.

	Board Chair Fee	Board Director Fee
Board	\$240,000 ⁽¹⁾	\$120,000
	Committee Chair Fees	Committee Member Fees
Audit, Compliance & Risk Management Committee	\$20,000	\$5,000
Nomination Committee	- ⁽²⁾	\$5,000
Remuneration Committee	\$10,000	\$5,000
Annual Fee Pool	\$950,000	

⁽¹⁾ Committee fees are not paid to the Chair of the Board

⁽²⁾ The Chairman of the Board fulfils the role of Chair of the Nomination Committee, and does not receive additional fees for this role

Directors' Report

Audited Remuneration Report (Continued)

Post-Employment Benefits

Superannuation Included in the stated fees, superannuation contributions are made in accordance with the Company's statutory obligations.

Other Benefits

Equity instruments NEDs do not receive any performance related remuneration, options or performance rights.
Other fees/benefits NEDs receive reimbursement for costs directly related to the Group business.

3.3. NED Total Remuneration

	Short-Term Benefits		Post-Employment Benefits	
Amounts \$	Year	Fees	Superannuation	Total
Current NEDs				
John Skippen (Chair)	FY17	220,384	19,616	240,000
	FY16	221,573	19,308	240,881
Thomas Brown ⁽¹⁾	FY17	102,248	9,714	111,962
	FY16	-	-	-
James M. Millar	FY17	134,151	12,580	146,731
	FY16	76,396	7,451	83,847
Former NEDs				
Ian Court ⁽²⁾	FY17	48,272	19,497	67,769
	FY16	117,287	12,526	129,813
Erica Lane ⁽²⁾	FY17	61,644	5,856	67,500
	FY16	123,608	11,743	135,351
Rhonda O'Donnell ⁽³⁾	FY17	80,611	7,658	88,269
	FY16	123,713	11,753	135,466
Total	FY17	647,310	74,921	722,231
	FY16	662,577	62,781	725,358

⁽¹⁾ Mr Brown commenced as a Non-Executive director on 1 September 2016

⁽²⁾ Mr Court and Ms Lane ceased as Non-Executive Directors on 30 August 2016

⁽³⁾ Ms O'Donnell ceased as a Non-Executive Director on 27 February 2017

4. Executive Remuneration

4.1. Executive KMP Remuneration

The Group's executive remuneration policies are intended to fairly remunerate executives for their contribution to the Group. They are also designed to attract, motivate and retain qualified and experienced executives employed across diverse businesses and geographic locations. For FY17, executive KMP remuneration was designed to include the following components:

- Fixed Remuneration
- Short Term Incentive
 - Cash
 - Deferred Service Rights
- Long Term Incentive

Each of these elements is described further in the following sections.

As disclosed in the FY16 Remuneration Report, specific retention arrangements were introduced for the Group Chief Financial Officer (GCFO) for FY17. Details of these arrangements are provided in Section 4.6.

4.2. Total Fixed Remuneration

What is Total Fixed Remuneration (TFR)?

TFR includes all remuneration and benefits paid to an executive KMP calculated on a total employment cost basis. In addition to base salary, overseas executives receive benefits that may include health insurance, car allowances and relocation allowances. In Australia, retirement benefits are generally paid in line with the prevailing Statutory Superannuation Guarantee. Elsewhere, retirement benefits are generally paid in line with local legislation and practice. TFR is not "at risk".

Directors' Report

Audited Remuneration Report (Continued)

How is TFR determined?

Remuneration levels are considered annually through a remuneration review that considers market data, insights into remuneration trends, the performance of the Group and individual, the broader economic environment, and the executives' responsibilities, performance, qualifications, experience and geographic location. Increases in job role or responsibility, promotion, and changing market circumstances, as reflected through independent benchmark assessments, would suggest adjustments may be necessary. Adjustments to executive KMP remuneration are approved by the Board, based on RC and Group Managing Director input and recommendations.

4.3. Short Term Incentive (STI) Plan

4.3.1. Short Term Incentive Plan (Cash)

How does the STI Plan operate?

Executive KMP (excluding the Group CFO, refer to Section 4.6) are eligible to participate in the Group's STI Plan which places a significant proportion of remuneration "at risk" subject to the achievement of financial outcomes and individual performance measures. This provides a tangible link between the interests of executives and the financial performance of the Group and aligns executives' behaviours with the Group's short and medium term performance.

The STI plan has a cash component which may be paid once per year, following the announcement of the audited financial results at year end. The minimum payout for financial and individual performance is 0%, and the maximum payout is 100% for achievement of stretch targets. For FY17, the Deferred Service Rights Plan (DSRP) was introduced, with allocations intended to be made through this plan based on the STI outcomes for the financial year. As disclosed in Section 1.2, while shareholders approved the design of the Deferred Service Rights Plan at the November 2016 AGM, which may have provided an allocation of deferred service rights to the GMD, subsequently, participation in this plan was not offered to the GMD, or to other executive KMP. Further details on the DSRP is provided in Section 4.3.2.

The mix of performance criteria and the individual key performance indicators may vary from year to year depending on the assessed annual performance priorities at the start of the year. An overall financial performance gate is applied to all executive KMP awards, unless the Board determines otherwise.

The STI program is reviewed annually by the RC and approved by the Board.

What changes were made to the STI Plan during the year?

The following changes were made to the STI Plan during FY17:

- The design of the plan was changed to provide a stronger linkage to Group and Regional financial performance.
- The financial budgets set were challenging, and achievement would represent a significant uplift in performance. As a result, the Board set a gateway level of EBITDAW performance that needed to be achieved before any STI would be paid. A linear scale was adopted for performance between target and stretch.

What were the STI performance measures for the year ended 30 June 2017?

The performance measures for executive KMP were designed to align reward with achieving Group and Regional Financial and Non-Financial Measures. The FY17 measures reflected the short to medium priorities of the Group, with a significant portion weighted to financial measures. The three measures included under the STI Plan are weighted for each participant. The weighting varies according to the individual's functional responsibilities and their ability to influence the measurement outcomes. For the year ended 30 June 2017 the relative weightings were as follows:

	Group Financial		Regional Financial		Non-Financial	TOTAL
	EBITDAW	Gross Cash Flow less CAPEX	EBITDAW	Gross Cash Flow less CAPEX		
Group Managing Director	35%	35%	-	-	30%	100%
CEO, UK	-	-	35%	35%	30%	100%
CEO, Australia	-	-	35%	35%	30%	100%

For financial measures, 50% of the above weightings may have been received for achievement of target performance, with straight line vesting between Target (50%) and Cap (100%).

Who sets the STI performance measures?

Financial performance targets are set by the Board, based on the recommendation of the RC. Individual KPIs are set and measured for each executive KMP by the Group Managing Director, then reviewed and endorsed by the RC and approved by the Board. The RC set and measure the individual KPIs for the Group Managing Director, which are approved by the Board.

Directors' Report

Audited Remuneration Report (Continued)

What are the individual key performance indicators (KPIs) and why are they used as an STI performance measure?

The use of individual KPIs for each executive creates a set of personal measures specific to each executive. For FY17, these related to delivery of key business initiatives in the areas of client, business and people. The use of individual KPI measures support the alignment of leadership behaviours with the Group's corporate philosophy and objectives.

Payment of the individual non-financial component of the STI is subject to achievement of the financial gateway, unless the Board determines otherwise.

How is performance assessed?

Performance against individual KPIs are validated and approved by the Board following the preparation of the financial statements each financial year.

What if an executive KMP ceases employment?

The following details the treatment of short term incentives on termination:

- **Resignation:** Any potential STI payment is forfeited if an employee tenders their resignation. If an employee has given notice, but not actually ceased employment, their unpaid incentives are forfeit irrespective of when the performance period ended.
- **Dismissal:** Any potential STI payment is forfeited if an employee is given notice of dismissal.
- **Death:** Payments will be made to the estate of a deceased employee pro-rated for the eligible period. Payment will be calculated in accordance with the normal timetable and based on the end of year results.
- **Total & Permanent Incapacity:** Employees will be eligible for payments pro-rated for the eligible period. Payment will be calculated in accordance with the normal timetable and based on the end of year results.
- **Retrenchment or other Company initiated termination:** At the discretion of the Board.

When are the performance conditions tested and payments made?

For the executive KMP (excluding Group CFO), performance is tested and paid following the preparation of the financial statements, with payments generally made in September, following financial year end.

Details of STI outcomes for FY17 are provided in Section 4.10.2.

4.3.2. Deferred Service Rights Plan

For FY17, the introduction of a Deferred Service Rights Plan (DSRP) was approved by the Board. Executive KMP (excluding the GCFO) were to be invited to participate in the DSRP. Under this plan executive KMP may have been granted an allocation of Deferred Service Rights, with the quantum being based on the results of the STI for FY17. These rights would then be held in trust for a period of two years.

Subsequently, the Board decided that this plan would not be implemented due to the environment facing the Company, and therefore, no Deferred Service Rights were granted.

4.4. Long Term Incentives (LTI)

In accordance with the Group remuneration framework, it had been intended to offer LTI allocations to executive KMP during FY17. However, following the first strike vote against the remuneration report at the 2016 AGM, and the challenges facing the Group, and feedback received from the executive team, the Board decided that no allocation would be made to executive KMP during FY17. However, during FY17, a grant of equity was made to the GCFO under his retention plan. Further details of this plan are provided in Section 4.6.2.

During FY16, an offer was made to executive KMP in November 2015, and was accepted by those executives. This offer was subsequently placed on hold, and then cancelled, with no performance rights being allocated to the executives for that year.

Directors' Report

Audited Remuneration Report (Continued)

4.4.1. FY15 Long Term Incentive Plan

Three of the executive KMP are participants in the FY15 LTI.

Grant Date	31 October 2014 (Australian executive KMP) 12 December 2014 (UK executive KMP)			
Performance Conditions	The FY15 equity grants to the Group Managing Director and other executive KMP are in two equal tranches assigned 50% to compound annual growth rate ("CAGR") in EPS and 50% subject to ranking of TSR against the S&P/ASX 300 (excluding resources). The FY15 equity grants awarded to the Group Managing Director and other executive KMP are tested against the performance hurdles at the end of the three year performance period. If the performance hurdles are not met at the vesting date the performance rights lapse. The performance conditions applying to the FY15 grant are as follows:			
Vesting Schedule Tranche 1 EPS Compound Annual Growth Rate Performance Period: 1 July 2014 to 30 June 2017	Executive Director ⁽¹⁾ Compound annual growth in EPS (3 Years)		Other executive KMP Compound annual growth in EPS (3 Years)	
	% CAGR in EPS	% of equity to vest	% CAGR in EPS	% of equity to vest
	< 10%	0%	< 7%	0%
	10% to 15%	50% to 100% pro-rata	7% to 10%	50% to 100% pro-rata
	> 15%	100%	> 10%	100%
	⁽¹⁾ FY14 Basic EPS is 33.8 cents. The Board imposed higher performance expectations on the then two Executive Directors, Messrs Grech and Fowlie. Mr Fowlie resigned as an Executive Director in August 2016, however, he continued as an executive KMP in the role of CEO, UK for the full year.			
Vesting Schedule Tranche 2 Relative TSR Performance Period: 1 September 2014 to 31 August 2017	Ranking of the Group TSR against S&P/ASX 300 (excluding resources)			
	Performance		% of equity to vest	
	< 50th percentile		0%	
	50th to 75th percentile		50% to 100% pro-rata	
	> 75th percentile		100%	
Equity Type	Performance Rights			
Expiry Date	30 October 2017			
Current Status	Both tranches will be assessed in September 2017 following the completion of the relevant performance period, being, EPS at 30 June 2017, and RTSR at 31 August 2017. It is anticipated that neither performance hurdle will be achieved.			

4.5. Group Managing Director Remuneration

4.5.1. Cessation as Group Managing Director

As disclosed to the ASX on 29 June 2017, Mr Grech stood down as Group Managing Director as part of the Recapitalisation Agreement for the company announced on that date. He remains a Non-Executive Director of the Group until the proposed balance sheet restructuring of the Group has been completed, and at such time that the Group appoints a replacement legal practitioner director as required by the relevant provisions of the *Legal Professions Act 2007* (Victoria) and equivalent provisions in the jurisdictions in which the Company conducts legal practices. It is important that Mr Grech continue as the legal practitioner director for the immediate future, and to support the Board during this period. Therefore, the following arrangements will apply:

- From 30 June 2017 until he ceases as a Non-Executive Director of the Group, he will continue to receive fees equivalent to his base salary as Group Managing Director, which is \$560,384.
- When he ceases as a Non-Executive Director, as detailed above, he will receive the following:
 - 3 months salary in lieu of notice (rather than the 6 months to which he was contractually entitled);
 - 13 weeks salary as a termination payment; and
 - Untaken annual leave and long service leave accrued until he ceased as the Group Managing Director.

He received no STI payments for the FY17 year and forfeited 40,000 Performance Rights previously granted under the FY15 Long Term Incentive plan.

Directors' Report

Audited Remuneration Report (Continued)

4.5.2. Relocation Allowance

During FY17, the Board approved an expatriate allowance for the Group Managing Director for the period of his assignment to the UK. Over the past 18 months Mr Grech has spent a substantial proportion of his time in the UK focused on the ongoing restructuring of UK operations. This allowance covered the additional costs incurred for living expenses while in the UK, while maintaining a family residence in Australia. This was a temporary allowance, and did not represent an ongoing increase to TFR. Details of this payment are included in "other benefits" in the executive remuneration table in Section 4.10.1. The amount shown in the remuneration table in 4.10.1 covers the additional living costs while on assignment to the UK from 18 January 2016 to 29 June 2017 which is included under "Other Benefits".

4.6. Group Chief Financial Officer Remuneration

The Group Chief Financial Officer (GCFO) was assessed by the Board as being critical to managing the financial restructure of the Group. Accordingly, in FY16, the Board approved a "one off" short term incentive and retention plan. Details of these arrangements were disclosed in the FY16 Remuneration Report, and are described below. On the effective date of the Scheme of Arrangement, or 15 November 2017, whichever is the earlier, the GCFO role will no longer be required and he will cease with the Group. Details of his termination arrangements are also provided below.

4.6.1. GCFO Short Term Incentive Plan

As part of the retention arrangements introduced for the GCFO for FY17 he participated in a quarterly STI plan for the financial year. Results were assessed at the end of each quarter against performance milestones approved by the Board. These provided alignment between key performance outcomes for the Group and the reward for the GCFO. The weightings and measures were as follows:

Measure	Q1	Q2	Q3	Q4	Full Year
EBITDAW	6%	6%	6%	12%	30%
Gross Operating Cash Flow less CAPEX	6%	6%	6%	12%	30%
Non-Financial milestones	8%	8%	8%	16%	40%
TOTAL	20%	20%	20%	40%	100%

The Board determined the financial and non-financial measures for each quarter, and reviewed the results at the end of each quarter.

The resulting payments were reviewed by the RC prior to being referred to the Board for approval. Details are provided in the following table:

Assessment	Weighting	Target STI Value (\$)	Actual STI Payment (\$)
Quarter 1: 30 Sept 2016	20%	\$65,000	\$45,500
Quarter 2: 31 Dec 2016	20%	\$65,000	\$26,000
Quarter 3: 31 Mar 2017	20%	\$65,000	\$26,000
Quarter 4: 30 Jun 2017	40%	\$130,000	\$0
TOTAL	100%	\$325,000	\$97,500

Based on the Board's assessment of the GCFO's performance against the KPIs he was paid 30% of his maximum potential STI value. Of this, 24% related to his contribution and efforts in improving the financial systems of the Group and as a major contributor to the negotiations of the recapitalisation of the Group. 6% of the payment related to achievement of the EBITDAW target in Quarter 1.

Directors' Report

Audited Remuneration Report (Continued)

4.6.2. GCFO Retention Plan

The GCFO retention plan was implemented in place of his participation in any other Group equity plan. The plan comprised an allocation of performance rights and options based on the following:

Grant Date	5 August 2016										
Performance Period	1 May 2016 to 30 June 2017										
Equity on Issue	1.2 million performance rights 2.3 million options										
Performance Condition	Relative Total Shareholder Return (TSR) ranking against the S&P/ASX 300 (excluding resources)										
Vesting Schedule	<table> <tr> <th colspan="2">Ranking of the Group TSR against S&P/ASX 300 (excluding resources)</th></tr> <tr> <th>Performance</th><th>% of equity to vest</th></tr> <tr> <td>< 50th percentile</td><td>0%</td></tr> <tr> <td>50th to 75th percentile</td><td>50% to 100% pro-rata</td></tr> <tr> <td>> 75th percentile</td><td>100%</td></tr> </table>	Ranking of the Group TSR against S&P/ASX 300 (excluding resources)		Performance	% of equity to vest	< 50th percentile	0%	50th to 75th percentile	50% to 100% pro-rata	> 75th percentile	100%
Ranking of the Group TSR against S&P/ASX 300 (excluding resources)											
Performance	% of equity to vest										
< 50th percentile	0%										
50th to 75th percentile	50% to 100% pro-rata										
> 75th percentile	100%										
Vesting Conditions	In addition to achieving the required performance for vesting, the participant was also required to meet the service condition and the Board must resolve that the hurdle had been achieved. If the performance conditions were not satisfied, the Performance Rights and Options lapse, and no value will have been received by the participant.										
Treatment of Vested Equity	Performance rights: 50% of vested and exercised Performance Rights may have been converted to ordinary shares and transferred to the participant immediately. The remaining 50% may have been converted to shares and held in trust until 31 December 2018. Options: may have been exercised once the performance hurdle had been achieved, or the participant may have deferred exercising the Options for up to 3 years from the Grant Date. If the GCFO had elected to exercise some, or all of the vested Options, they would have been converted into shares. Fifty percent of the resulting shares may have been transferred to the GCFO on exercising of the Options, with the remaining 50% of the resulting shares to be held in trust to the end of the restriction period on 31 December 2018.										
Expiry Date	Vested options that have not been exercised would have lapsed on 4 August 2019.										
Fair Value of Instrument at Grant	Performance rights: \$0.35 Options: \$0.21										
Option Exercise Price	\$0.2763 (VWAP for the 20 business days prior to 1 May 2016 and as agreed in the Syndicated Facility Agreement).										
Current Status	The GCFO Retention Plan has been assessed by the Board following the vesting date of 30 June 2017. The hurdle was not achieved and all performance rights and options have now lapsed.										

4.6.3. Cessation as GCFO

On the effective date of the Scheme of Arrangement, or 15 November 2017, whichever is the earlier, the GCFO role will no longer be required and he will cease with the Group. As a result he will receive the following termination payments, all less applicable Tax in accordance with his employment agreement:

- (i). 6 months' salary in lieu of notice; and
- (ii). untaken annual leave accrued to the Employment Termination Date.

4.7. Remuneration Composition Mix & Executive Remuneration Components

The Group endeavours to provide an appropriate and competitive mix of remuneration components balanced between fixed and at risk and potentially paid in both cash and equity. The following table provides the intended remuneration mix across the remuneration components:

Directors' Report

Audited Remuneration Report (Continued)

Target Remuneration Policy Mix for FY17

Policy Total Remuneration % (annualised at target) for FY17				
Position	Fixed	Variable (at risk)		
	Total Fixed Remuneration	Short Term Incentive	Deferred Service Rights	Long Term Incentive
Group Managing Director	48.1%	18.7%	16.6%	16.6%
CEO UK	54.3%	20.9%	12.4%	12.4%
CEO Australia	60.6%	18.2%	10.6%	10.6%
Group Chief Financial Officer	34.8%	17.4%	-	47.8% ⁽¹⁾

⁽¹⁾ GCFO Retention Plan

Following the first strike at the 2016 AGM, and the environment facing the Company during FY17, no long term incentive or deferred service right grants were made to executive KMP during the year ended 30 June 2017. As a result the relative weightings between the remaining remuneration components were as follows:

Actual Target Remuneration Mix for FY17 (excluding DSRP and LTI which was not granted)

Actual Total Remuneration % (annualised at target) for FY17				
Position	Fixed	Variable (at risk)		
	Total Fixed Remuneration	Short Term Incentive	Deferred Service Rights	Long Term Incentive
Group Managing Director	72.0%	28.0%	The Deferred Service Rights Plan was not implemented	No LTI grants were made during FY17
CEO UK	72.2%	27.8%		
CEO Australia	76.9%	23.1%		
Group Chief Financial Officer	34.8%	17.4%	-	47.8%

4.8. Relationship between the Group's Performance and Executive KMP Remuneration

4.8.1. The Group's Financial Performance (FY13 to FY17)

Company Performance	2013	2014 Restated	2015 Restated	2016	2017
Revenue (\$'000)	297,963	438,228	598,185	908,185	611,485
Profit before tax (\$'000)	61,341	95,747	85,408	(1,029,468)	(551,149)
Profit after tax (\$'000)	41,521	68,236	62,374	(1,017,595)	(546,831)
Basic earnings per share (cents)	23.90	33.80	26.46	(289.1)	(155.6)
Diluted earnings per share (cents)	23.30	33.20	26.27	(289.1)	(155.6)
EBITDAW	33,362	63,321	92,586	(49,343)	(76,095)
Gross Operating Cash Flow less CAPEX	36,820	62,615	33,666	(96,383)	(34,308)
Dividends per share - paid during financial year (cents)	6.30	6.85	8.50	5.50	-
Total dividends paid during financial year (\$'000)	10,647	13,770	17,620	19,330	-
Share price at 30 June (\$)	2.78	5.16	3.56	0.39	0.081

Directors' Report

Audited Remuneration Report (Continued)

4.8.2. Group Performance and Relationship to Executive KMP Remuneration

The underperformance of the group as discussed in the Operating and Financial Review is reflected in the KMP STI outcomes.

FY17 Short Term Incentive outcomes

The resulting STI outcomes for the executive KMP are provided in the following table. One executive KMP, Mr Houghton, GCFO, received an STI payment for FY17. This amount was based on his "one off" STI described in Section 4.6.1. No other executive KMP received an STI payment for FY17.

Actual STI Awarded for FY17 Compared to STI Opportunity

Executive KMP	Position	Target STI as a % of FY17 TTR ⁽¹⁾	STI awarded as a % of Target STI	STI forfeited for FY17 as a % of Target STI	Accrued STI to be awarded in FY18 (\$)
Andrew Grech	Group Managing Director	28.0%	0%	100%	\$0
Ken Fowlie	Chief Executive Officer, UK	27.8%	0%	100%	\$0
Bryce Houghton	Group Chief Financial Officer	33.3%	30%	70%	\$0
Hayden Stephens	Chief Executive Officer, Australia	23.1%	0%	100%	\$0

⁽¹⁾ TTR is Total Target Remuneration, excluding DSRP and LTI

Overall, there has been direct alignment between the Company performance and the "at risk" reward for executive KMP. This is reflected in the limited STI payments, and the decision not to make any grants under the long term incentive plan and the deferred service rights plan during FY17. The exception was a 30% payment to the GCFO based on performance against his quarterly targets, as part of his retention and incentive arrangements, as described in section 4.6.1.

Long Term Incentive Outcomes

The FY15 LTI plan is the only active long term incentive plan and utilises EPS CAGR and relative TSR to assess performance, and the potential vesting of performance rights after the end of FY17. Both these measures are substantially below the level of performance required for any performance rights to vest. Final assessment of this plan will occur in September 2017.

It was planned to offer key executives the opportunity to participate in a FY17 LTI Plan. However, due to the challenges facing the company the Board decided not to make any offer during the year.

No performance rights vested during FY17, and equity allocated under the GCFO retention plan lapsed as the performance conditions were not achieved.

4.9. Other Remuneration Elements and Disclosures relevant to Executive KMP

4.9.1. Clawback

The clawback policy was introduced in June 2016 to apply onwards from FY17. The policy enables the Group to clawback certain elements of an executive's remuneration if there has been a misstatement of the Group's financial statements which results in the executive receiving a reward which exceeds the outcome that would have been achieved had the misstatement not been made. The clawback provisions are designed to further align the interests of executive KMP with the long-term interests of the Group and to ensure that excessive risk taking is not rewarded.

4.9.2. Hedging and Margin Lending Prohibition

The Group's Share Trading Policy continued in FY17. Directors and executive KMP must not engage in dealings based on short term fluctuations in the Group's securities. If a Director or executive KMP acquires securities in the Group, they should not sell or agree to sell any Slater and Gordon securities of that class for at least 30 days.

Directors are prohibited from entering into margin loans under the Group's Share Trading Policy. Other executive KMP require prior approval to enter into a margin loan arrangement where the amount of shares mortgaged, provided as security, lent or charged to a financier, amounts to 1% or more of the issued capital in the Group at the relevant time. KMP must notify the Company Secretary immediately if they are given notice by their financier of an intention to make a margin call and sell the Group's securities during a prohibited trading period.

Directors and executive KMP must not enter into hedging arrangements in relation to securities in the Group that are unvested or subject to disposal restrictions or minimum shareholding requirements.

Equity granted under the Executive Equity Incentive Scheme remains at risk until vested and exercised. It is a specific condition of grant that no schemes are entered into, by an individual, or their associates, that specifically protect the unvested value of performance rights allocated.

Directors' Report

Audited Remuneration Report (Continued)

The Group, in line with good corporate governance, has a Share Trading Policy setting down how and when employees may deal in Slater and Gordon securities. The Group's Share Trading Policy is available on the Slater and Gordon website www.slatergordon.com.au under the Firm, and then Governance tab.

4.9.3. Minimum Shareholding Guidelines

As at 30 June 2017, two executive KMP (Messrs Fowlie and Stephens) are subject to minimum shareholding requirements under agreements between the seven shareholders of the Company prior to listing in 2007.

Executive KMP subject to these agreements, are required to maintain a minimum number of shares that is equivalent to the lesser of 20% of the value, or 15% of the number of shares issued to them, while they remain a member or employee of the Group.

Directors' Report

Audited Remuneration Report (Continued)

4.10. Executive Remuneration Table

4.10.1. Executive Remuneration Table – Statutory Disclosure

Name	Year	Fixed Remuneration						Variable pay			End of Service			Total Remuneration	Proportion of Total Remuneration	
		Short-term			Post-employment			Short-term	Long-term						Performance related	Delivered as equity
		Salary	Non-monetary benefits	Other benefits	Super-annuation benefits	Long service leave	Total	Cash Bonus	Performance Rights / Options	Total	Unused Statutory Leave Balances	Contract ual Notice Period	Total			
Andrew Grech ⁽¹⁾⁽²⁾	FY17	548,307	-	286,462	31,721	-	866,490	-	(28,953)	(28,953)	280,192	382,896	663,088	1,500,625	-1.9%	-1.9%
	FY16	543,225	5,082	-	39,209	19,952	607,468	-	29,797	29,797	-	-	-	637,265	4.7%	4.7%
Ken Fowlie ⁽³⁾	FY17	536,160	5,348	-	10,723	-	552,231	-	6,952	6,952	-	-	-	559,183	1.2%	1.2%
	FY16	651,763	6,200	-	13,035	-	670,998	-	15,360	15,360	-	-	-	686,358	2.2%	2.2%
Bryce Houghton	FY17	602,180	11,086	-	40,769	13,053	667,088	97,500	894,430	991,930	-	-	-	1,659,018	59.8%	53.9%
	FY16	385,619	6,059	-	19,674	2,658	414,010	189,600	12,938	202,538	-	-	-	616,548	32.9%	2.1%
Hayden Stephens	FY17	461,479	14,865	-	19,616	30,449	526,409	-	6,952	6,952	-	-	-	533,361	1.3%	1.3%
	FY16	383,471	17,240	-	30,779	18,306	449,797	-	12,723	12,723	-	-	-	462,520	2.8%	2.8%
Former Executive KMP																
Wayne Brown ⁽⁴⁾	FY17	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	FY16	141,849	4,300	-	8,712	-	154,861	-	(5,549)	(5,549)	124,329	-	124,329	273,641	(2.0%)	(2.0%)
Cath Evans ⁽⁵⁾	FY17	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	FY16	318,926	-	-	19,756	6,318	345,000	25,000	921	25,921	17,938	357,064	375,002	745,923	3.5%	0.1%
Neil Kinsella ⁽⁶⁾	FY17	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	FY16	236,239	1,772	-	-	-	238,011	-	(4,814)	(4,814)	-	-	-	233,197	(2.1%)	(2.1%)
Felicity Pantelidis ⁽⁷⁾	FY17	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	FY16	384,053	-	-	19,308	13,507	416,868	93,750	12,172	105,922	-	-	-	522,790	20.3%	2.3%
Total	FY17	2,148,126	31,299	286,462	102,829	43,502	2,612,218	97,500	879,381	976,881	280,192	382,896	663,088	4,252,187	23.0%	20.7%
Total	FY16	3,045,145	40,653	-	150,473	60,741	3,297,012	308,350	73,548	381,898	142,267	357,064	499,331	4,178,241	9.1%	1.8%

⁽¹⁾ A Grech received an expatriate allowance to cover the additional living costs while on assignment to the UK from 18 January 2016 to 29 June 2017 which is included under "Other Benefits"

⁽²⁾ A Grech ceased as Group Managing Director on 29 June 2017. The End of Service benefit represent his termination payment which will be paid to him when he ceases as a Non-Executive Director of the Company

⁽³⁾ K Fowlie transitioned from Executive Director to other executive KMP on 1 September 2016. The details above reflect the full year income across both roles. He was paid in Pound Sterling, which has been converted to AUD using an average exchange rate of AUD to GBP of 1.6818

⁽⁴⁾ W Brown ceased as a KMP on 30 November 2015

⁽⁵⁾ C Evans was on leave of absence without pay from 29 March 2016 and ceased employment on 30 June 2016

⁽⁶⁾ N Kinsella ceased employment on 5 February 2016

⁽⁷⁾ F Pantelidis ceased as a KMP on 30 June 2016. She ceased employment with the Group on 14 October 2016

Directors' Report

Audited Remuneration Report (Continued)

4.10.2. Executive Remuneration Table

This table represents the value to the executives of cash paid and vested equity awards (intrinsic value) received during the year and unvested equity awards (AASB 2 Share based payments (AASB-2) value) granted during the financial year, at risk. The LTI equity granted is a value determined under AASB-2 discounted for vesting probabilities of performance criteria which may or may not vest depending on future outcomes that are uncertain. Accordingly, this table incorporates data that represents the accumulation of outcomes arising from multiple years.

Name	Year	Fixed Remuneration and Cash Incentives Received				Future at risk remuneration received during the year (LTI) ⁽²⁾
		Fixed Remuneration ⁽¹⁾	Cash Incentives received for previous year performance	Cash Incentives received for current year performance	Total Cash	
Andrew Grech	FY17	866,490	-	-	866,490	-
	FY16	587,515	35,000	-	622,515	-
Ken Fowlie	FY17	552,231	-	-	552,231	-
	FY16	670,998	30,000	-	700,998	-
Bryce Houghton	FY17	654,035	90,000	97,500	841,535	-
	FY16	411,352	-	100,000	511,352	-
Hayden Stephens	FY17	495,961	-	-	495,961	-
	FY16	431,490	30,000	-	461,490	-
Former Executive KMP						
Wayne Brown	FY17	-	-	-	-	-
	FY16	154,861	25,000	-	179,861	-
Cath Evans	FY17	-	-	-	-	-
	FY16	338,682	100,000	25,000	463,682	-
Neil Kinsella	FY17	-	-	-	-	-
	FY16	238,011	28,298	-	266,309	-
Felicity Pantelidis	FY17	-	-	-	-	-
	FY16	403,361	80,000	-	483,361	-
Total	FY17	2,568,717	90,000	97,500	2,756,217	-
Total	FY16	3,236,270	328,298	125,000	3,689,568	-

⁽¹⁾ Represents the value of base salary, non-monetary benefits, other benefits and superannuation received during the year (excludes the accrued value of long leave)

⁽²⁾ No LTI was offered to executive KMP during FY17 (refer Section 4.4)

5. Key Management Personnel Equity

5.1. Executive KMP Equity Plans

As described in Section 4.4, as a result of the FY16 and FY17 LTI plans being cancelled and not offered respectively, the FY15 LTI, and the GCFO FY16 Retention plan are the only equity plans in which executive KMP continued to participate during FY17.

The FY15 LTI has two testing dates to determine if any performance rights may vest, being 30 June 2017 for EPS, and 31 August 2017 for RTSR. Formal assessment of performance of these plans will be undertaken in September 2017.

The GCFO FY16 Retention plan had a vesting date of 30 June 2017 for both performance rights and options. Performance of this plan has been assessed and all performance rights and options have lapsed.

5.2. Vesting and Exercise of Performance Rights granted as Remuneration

During FY17, no performance rights or options were vested, exercised, or granted.

Directors' Report

Audited Remuneration Report (Continued)

5.2.1. Analysis of Movement in Performance Rights

During the financial year, the movement in the number and value of performance rights over ordinary shares of Slater and Gordon Limited acquired under LTI, and GCFO Retention Plan, held by executive KMP is detailed below:

	Number held at 1 July 2016	Number offered in year ⁽¹⁾	Offer Value (\$)	Number exercised in year	Intrinsic Value (\$)	Number cancelled / forfeited during year	Number held at 30 June 2017
Andrew Grech	40,000	-	-	-	-	40,000	-
Ken Fowlie	16,000	-	-	-	-	-	16,000
Bryce Houghton	-	1,200,000	418,560	-	-	1,200,000	-
Hayden Stephens	16,000	-	-	-	-	-	16,000
Total	72,000	1,200,000	418,560	-	-	1,240,000	32,000

⁽¹⁾ No offer was made during FY17, refer Section 4.4

During the financial year, the movement in the number and value of Options over ordinary shares of Slater and Gordon Limited acquired under GCFO Retention Plan held by executive KMP is detailed below:

	Number held at 1 July 2016	Number offered in year	Offer Value (\$)	Number exercised in year	Intrinsic Value (\$)	Number cancelled / forfeited during year	Number held at 30 June 2017
Bryce Houghton	-	2,300,000	475,870	-	-	2,300,000	-
Total	-	2,300,000	475,870	-	-	2,300,000	-

5.3. KMP Equity Interests

In accordance with the *Corporations Act* (section 205G(1)), the Company is required to notify the interests (shares and rights to shares) of directors to the ASX.

In the interests of transparency and completeness of disclosure, this information is provided for each NED (as required under the *Corporations Act*) and all executive KMP.

Please refer section 4.9.2 Hedging and margin lending prohibition for more information.

The table below indicates shareholdings of the Group KMP:

	Number held at 1 July 2016	Acquisitions	Disposals	Number held at 30 June 2017
John Skippen	60,000	40,000	-	100,000
Thomas Brown	-	-	-	-
James M. Millar	20,000	-	-	20,000
Andrew Grech	6,750,656	250,000	-	7,000,656
Ken Fowlie	5,646,221	-	-	5,646,221
Bryce Houghton	-	-	-	-
Hayden Stephens	4,804,115	-	-	4,804,115
Former Non-Executive Directors				
Ian Court	69,804	25,000	59,000	35,804
Erica Lane	170,000	-	-	170,000
Rhonda O'Donnell	25,000	-	-	25,000
Total	17,545,796	315,000	59,000	17,801,796

Directors' Report

Audited Remuneration Report (Continued)

6. Service Contracts and Employment Agreements

6.1. Employment Agreements: Executive Directors & Other Executive KMP

The following sets out details of the employment agreements relating to the executive KMP:

Length of Contract	Executive KMP are on rolling contracts, which are ongoing employment contracts until notice is given by either party.
Notice Periods	In order to terminate the employment arrangements, executive KMP are required to provide the Company with six (6) months' written notice.
Resignation	On resignation, unless the Board determines otherwise, all unvested STI or LTI benefits are forfeited.
Termination on Notice by the Company	The Company may terminate employment by providing six (6) months' written notice or payment in lieu of the notice period based on TFR.
Redundancy	If the Company terminates employment for reasons of redundancy, under Company policy a severance payment may include 4 weeks' notice plus one additional week if the employee has completed 5 years' service and is over the age of 45. Any additional redundancy payments will be made in accordance with relevant legislation.
Death or Total and Permanent Disability	On death or total and permanent disability, payment will be made on a pro-rata basis and will be calculated in accordance with the normal timetable and end of year results.
Termination for Serious Misconduct	The Company may immediately terminate employment at any time in the case of serious misconduct, and executive directors and other executive KMP will only be entitled to payment of TFR up to the date of termination.
Statutory Entitlements	Payment of statutory entitlements of long service leave and annual leave applies in all events of separation.
Vendor Shareholders	Any executive who was one of the seven Vendor Shareholders is a party to the Vendor Shareholder Agreement released to the ASX on 21 May 2007, and is subject to minimum shareholding requirements and the consequences which flow from the cessation of their employment as a term of that agreement.
Post-Employment Restraints	The employment agreement contains a restraint of trade provision which applies for a period of between 6 months and 12 months.

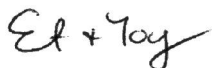
End of Remuneration Report

Auditor's Independence Declaration to the Directors of Slater and Gordon Limited

As lead auditor for the audit of Slater and Gordon Limited and Controlled Entities for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Slater and Gordon Limited and Controlled Entities it controlled during the financial year.



Ernst & Young



Christopher George
Partner
Melbourne
31 August 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2017

	Note	2017 \$'000	2016 \$'000
Revenue			
Fee revenue		532,460	698,486
Net movement in work in progress		(51,845)	(41,318)
Services revenue		120,844	234,302
Revenue from contracts with customers	3.1	601,459	891,470
Other income		10,026	16,715
Total revenue and other income		611,485	908,185
Less expenses			
Salaries and employee benefit expense	3.2	325,304	416,294
Payments to former owners		4,453	18,529
Share based payment expense to former owners		7,170	14,699
Cost of sales	3.2	79,946	170,297
Rental expense		29,161	38,169
Advertising, marketing and new business development expense		87,850	136,596
Administration and office expense		90,290	92,528
Consultant fees		33,470	36,158
Finance costs	3.2	51,911	42,548
Bad and doubtful debts		47,885	39,342
Depreciation and amortisation expense	3.2	11,228	17,743
Other expenses		32,701	35,244
Impairment of intangible assets	4.1	361,265	879,506
Loss before income tax expense		(551,149)	(1,029,468)
Income tax benefit	3.4	(4,318)	(11,873)
Loss for the year after income tax		(546,831)	(1,017,595)
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences - foreign operations		(8,188)	(35,013)
Changes in fair value of cash flow hedges		1,721	(1,130)
Total items that may be reclassified subsequently to profit or loss		(6,467)	(36,143)
Other comprehensive loss for the year, net of tax		(6,467)	(36,143)
Total comprehensive loss for the year, net of tax		(553,298)	(1,053,738)
Loss for the year attributed to:			
Owners of the Company		(546,549)	(1,017,306)
Non-controlling interests		(282)	(289)
		(546,831)	(1,017,595)
Total comprehensive loss for the year attributed to:			
Owners of the Company		(553,014)	(1,053,426)
Non-controlling interests		(284)	(312)
		(553,298)	(1,053,738)
Basic loss per share (cents)	3.6	(155.6) cents	(289.1) cents
Diluted loss per share (cents)	3.6	(155.6) cents	(289.1) cents

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Financial Position

As at 30 June 2017

	Note	2017 \$'000	2016 \$'000
Current assets			
Cash and cash equivalents		33,303	82,494
Receivables	4.2	395,466	472,377
Work in progress	4.3	294,871	361,898
Current tax assets	3.4	3	16,803
Other current assets		21,144	24,217
Total current assets		744,787	957,789
Non-current assets			
Property, plant and equipment	4.4	26,555	33,207
Receivables	4.2	91,492	65,391
Work in progress	4.3	220,094	225,635
Intangible assets	4.1	13,112	393,970
Deferred tax assets	3.4	34,718	46,725
Other non-current assets		536	11,314
Total non-current assets		386,507	776,242
Total assets		1,131,294	1,734,031
Current liabilities			
Payables	4.5	418,619	463,570
Short term borrowings	5.2	466,240	3,642
Current tax liabilities	3.4	8,250	9,301
Other current liabilities		1,815	7,490
Provisions	4.6	54,532	52,455
Total current liabilities		949,456	536,458
Non-current liabilities			
Payables	4.5	-	510
Long term borrowings	5.2	314,702	761,138
Deferred tax liabilities	3.4	93,361	112,950
Derivative financial instruments		1,419	2,841
Provisions	4.6	21,172	15,037
Total non-current liabilities		430,654	892,476
Total liabilities		1,380,110	1,428,934
Net (liabilities) /assets		(248,816)	305,097
Equity			
Contributed equity	5.5	1,119,235	1,116,048
Reserves		44,023	54,290
Retained profits		(1,411,897)	(865,348)
Total equity attributable to equity holders in the Company		(248,639)	304,990
Non-controlling interest		(177)	107
Total equity		(248,816)	305,097

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes In Equity

For the Year Ended 30 June 2017

2017	Note	Contributed Equity	Retained Profits	Cash Flow Hedging Reserve	Foreign Currency Translation Reserve	Share-based Payment Reserve	Total	Non-controlling interest	Total Equity
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 July 2016		1,116,048	(865,348)	(2,319)	35,699	20,910	304,990	107	305,097
Net loss after tax for the year		-	(546,549)	-	-	-	(546,549)	(282)	(546,831)
Total other comprehensive loss for the year		-	-	1,721	(8,186)	-	(6,465)	(2)	(6,467)
Total comprehensive loss for the year		-	(546,549)	1,721	(8,186)	-	(553,014)	(284)	(553,298)
Transactions with owners in their capacity as owners		-							
Ordinary and VCR shares issued / (bought back)	5.5	(9,232)	-	-	-	-	(9,232)	-	(9,232)
Cancellation of VCR shares		525	-	-	-	-	525	-	525
Transfer from share based payments reserve	5.5	11,907	-	-	-	(11,907)	-	-	-
Recognition of share based payments expense to former owners		-	-	-	-	7,170	7,170	-	7,170
Costs of share registry	5.5	(13)	-	-	-	-	(13)	-	(13)
Issue of warrants		-	-	-	-	-	-	-	-
Performance rights		-	-	-	-	935	935	-	935
Total transactions with owners in their capacity as owners		3,187	-	-	-	(3,802)	(615)	-	(615)
Balance as at 30 June 2017		1,119,235	(1,411,897)	(598)	27,513	17,108	(248,639)	(177)	(248,816)

2016	Note	Contributed Equity	Retained Profits	Cash Flow Hedging Reserve	Foreign Currency Translation Reserve	Share-based Payment Reserve	Total	Non-controlling interest	Total Equity
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 July 2015 (restated*)		1,098,345	171,288	(1,189)	70,689	10,619	1,349,752	419	1,350,171
Net loss after tax for the year		-	(1,017,306)	-	-	-	(1,017,306)	(289)	(1,017,595)
Total other comprehensive loss for the year		-	-	(1,130)	(34,990)	-	(36,120)	(23)	(36,143)
Total comprehensive income for the year		-	(1,017,306)	(1,130)	(34,990)	-	(1,053,426)	(312)	(1,053,738)
Transactions with owners in their capacity as owners									
Ordinary and VCR shares issued (net)		3,128	-	-	-	-	3,128	-	3,128
Dividends paid	3.5	-	(19,330)	-	-	-	(19,330)	-	(19,330)
Transfer from share based payments reserve	5.5	11,808	-	-	-	(11,808)	-	-	-
Recognition of share based payments expense to former owners		-	-	-	-	14,699	14,699	-	14,699
Costs of equity raising	5.5	2,767	-	-	-	-	2,767	-	2,767
Issue of warrants		-	-	-	-	7,422	7,422	-	7,422
Performance rights		-	-	-	-	(22)	(22)	-	(22)
Total transactions with owners in their capacity as owners		17,703	(19,330)	-	-	10,291	8,664	-	8,664
Balance as at 30 June 2016		1,116,048	(865,348)	(2,319)	35,699	20,910	304,990	107	305,097

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the Year Ended 30 June 2017

	Note	2017 \$'000	2016 \$'000
Cash flow from operating activities			
Receipts from customers		777,457	1,056,757
Payments to suppliers and employees		(803,574)	(1,135,083)
Payments to former owners		(17,657)	(14,211)
Interest received		339	381
Borrowing costs		(6,740)	(35,263)
Net income tax refunded		11,087	23,175
Net cash used in operating activities	3.3	(39,088)	(104,244)
Cash flow from investing activities			
Payment for software development		(5,959)	(5,314)
Payment for plant and equipment		(2,232)	(12,743)
Costs associated with acquisition of businesses		(3)	(738)
Proceeds from disposal of businesses		(1,501)	168
Repayment of cash consideration for SGS acquisition		-	2,386
Payment for acquisition of businesses – deferred consideration		(2,074)	(12,002)
Net cash used in investing activities		(11,769)	(28,243)
Cash flow from financing activities			
Costs of share registry management		(14)	(85)
Loans/payments to related parties and employees		(5,697)	(5,353)
Proceeds from borrowings		15,000	192,787
Repayment of borrowings		(3,640)	(44,759)
Dividends paid		-	(17,060)
Net cash provided by financing activities		5,649	125,530
Net decrease in cash held		(45,207)	(6,957)
Net foreign exchange differences		(3,984)	(7,534)
Cash at beginning of financial year		82,494	96,985
Cash at end of financial year		33,303	82,494

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

For the Year Ended 30 June 2017

Note 1: Basis of Preparation

This note sets out the accounting policies adopted by Slater and Gordon Limited (the “company” or “parent”) and its consolidated entities (the “consolidated entity” or the “Group”) in the preparation and presentation of the financial report. Where an accounting policy is specific to one note, the policy is described within the note to which it relates.

The financial report was authorised for issue by the directors as at the date of the Directors’ Report.

Slater and Gordon Limited is a company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange.

1.1. Basis of Accounting

This financial report is a general purpose financial report, for a ‘for-profit’ entity, which has been prepared in accordance with Australian Accounting Standards, Interpretations and other applicable authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. The consolidated financial statements of Slater and Gordon Limited also comply with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”).

The financial report has been prepared under the historical cost convention, except where noted.

The consolidated financial statements provide comparative information in respect of the previous period.

Where necessary, comparative figures have been reclassified and repositioned for consistency with current year disclosures.

The parent entity and the consolidated entity have applied the relief available under ASIC Corporations (Rounding in Financial/Directors’ Reports) Instrument 2016/191 and accordingly, amounts in the consolidated financial statements and Directors’ Report have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Going Concern

The financial statements have been prepared on a going concern basis.

During the year ended 30 June 2017, the Group incurred a net loss after tax of \$546.8m (including \$361.3m of intangible asset impairment) and generated negative net cash flow from operating activities of \$39.1m. At 30 June 2017 the Group’s total liabilities exceed its total assets by \$248.8m. The Group’s Syndicated Facility Agreement (“SFA”) banking facilities were fully drawn with borrowings of \$761.6m as at 30 June 2017. Based on exchange rates as at year end, \$450.2m is repayable in May 2018 and \$311.4m is repayable in March 2019. The Group will not have sufficient free cash flow to pay interest and repay the facilities in May 2018, or earlier, accordingly, the Group requires the ongoing support of its lenders to continue as a going concern.

On 29 June 2017, the Group announced it had entered into a binding recapitalisation agreement with its lenders and subsequently, on 31 August 2017, the Group announced it had signed an amended binding restructuring support deed with 100% of its secured lenders in relation to the recapitalisation. The recapitalisation is intended to provide the Group with a sustainable level of debt and support a stable platform for its future operations.

The terms of the recapitalisation agreement also provide the Group with additional liquidity support for its continued operation prior to and post the implementation of the recapitalisation in the form of an increase of \$50m to the Group’s \$40m working capital facility which will be available prior to the recapitalisation. Key terms of the recapitalisation and liquidity support are detailed in note 5.2 Financing Arrangements.

The recapitalisation is expected to be completed in early December 2017 and is subject to a number of conditions precedent which are detailed at note 5.2.4 Recapitalisation Agreement. These include shareholder approval of the recapitalisation and the settlement of the shareholder class action detailed in note 8 Subsequent Events.

In addition to the reliance on the recapitalisation and additional liquidity support, to continue as a going concern, the Group has drawn down a further \$12.5m of its current working capital facility on 15 August 2017 and will require an additional \$12.5m in September 2017. This additional drawdown is subject to a number of conditions precedent which are included in note 5.2.5 Working Capital Facility. Following the recapitalisation the Group may remain dependent upon its lenders until it stabilises its trading results and sufficiently improves operating cash flows.

The above matters present a material uncertainty in relation to the Group’s ability to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

After taking into account all available information, the Directors have concluded that there are currently reasonable grounds to believe:

- the Group will continue to receive the support of its lenders;
- the conditions precedent to the recapitalisation agreement will be satisfied;
- the conditions precedent to drawing down on the remainder of the working capital facility will be satisfied;
- the recapitalisation agreement will be approved by shareholders; and as such
- the preparation of the 30 June 2017 financial report on a going concern basis is appropriate.

Notes to the Financial Statements

For the Year Ended 30 June 2017

The Directors have formed this view based on a number of factors including:

- the support that lenders have afforded the Group to date in ensuring a stable platform for the business to re-establish itself;
- the absence of advice from lenders of a withdrawal of their support;
- the in principle conditional agreement to settle the shareholder class action as announced on 11 July 2017; and
- the recapitalisation plan produces a better return to shareholders and creditors than any other alternative.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the parent entity and of all entities which the parent entity controls. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All inter-company balances and transactions, including any unrealised profits or losses, have been eliminated on consolidation. Subsidiaries are consolidated from the date on which control is established and are de-recognised from the date that control ceases.

Non-controlling interests in the results of subsidiaries are shown separately in the consolidated statement of comprehensive income and consolidated statement of financial position.

Any changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions.

1.2. Adoption of New Accounting Standards

The Group adopted all the new mandatory standards and interpretations for the current reporting period. The adoption of these standards and interpretations did not result in a material change on the reported results and position or disclosures of the Group as they did not result in any changes to the Group's existing accounting policies.

1.3. Significant Accounting Judgements, Estimates and Assumptions

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are outlined in detail within the specific note to which they relate.

1.4. Foreign Currency Translations and Balances

Functional and Presentation Currency

The consolidated financial statements are presented in Australian dollars which is also the functional currency of the parent entity and all Australian subsidiaries. The financial statements of each entity within the consolidated entity are measured using the currency of the primary economic environment in which that entity operates (the functional currency).

Transactions and Balances

Transactions in foreign currencies of entities within the consolidated group are translated into the respective functional currency of each entity at the rate of exchange ruling at the date of the transaction. The assets, liabilities and results of foreign operations where their functional currency is different to the presentation currency are translated as disclosed below.

Foreign currency monetary items that are outstanding at the reporting date are translated using the spot rate at the end of the financial year.

Except for certain foreign currency hedges, all resulting exchange differences arising on settlement or re-statement of monetary items are recognised as income and expenses in profit or loss for the financial year.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions and are not remeasured unless they are carried at fair value.

Foreign Operations

On consolidation, the assets and liabilities of foreign operations are translated into the presentation currency of the Group at the closing rate on the reporting date. Income and expenses are translated at average exchange rates for the period, unless the exchange rate fluctuated significantly during the period, in which case the exchange rates at the dates

Notes to the Financial Statements

For the Year Ended 30 June 2017

of the transactions are used. All resulting exchange differences are recognised in Other Comprehensive Income and accumulated in the foreign currency translation reserve, a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Note 2: Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. For the year ended 30 June 2017, all operating segment results were regularly reviewed by the Group's Managing Director, who was the Chief Operating Decision Maker, to make decisions about resources to be allocated to the segment and to assess its performance.

The Group has three operating segments which also represent its three reportable segments, as described below, which are the Group's strategic business units. Each strategic business unit is managed separately. The following summary describes each of the Group's reportable segments:

- **Slater and Gordon Australia ("AUS")** – includes the parent company Slater and Gordon Limited and its subsidiaries in Australia. This segment conducts a range of legal services within the geographical area of Australia. This segment also includes investments in the Group's other segments, and borrowings and capital raising activities to finance investment and operations of the combined Group.
- **Slater and Gordon UK ("SGL UK")** – conducting a range of personal injury and general law legal services in the United Kingdom.
- **Slater Gordon Solutions ("SGS")** – offers fast track personal injury legal services in the UK relating to road traffic accidents, employee liability, noise induced hearing loss, health and motor services.

Segment assets and liabilities are allocated to countries based on where the assets are located.

	AUS		SGL UK		SGS		TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue								
Fee and services revenue	226,747	265,629	157,784	229,958	268,773	437,201	653,304	932,788
Movement in WIP	(15,474)	(27,848)	(16,570)	(17,391)	(19,801)	3,921	(51,845)	(41,318)
Revenue from contracts with customers	211,273	237,781	141,214	212,567	248,972	441,122	601,459	891,470
Other income							10,026	16,715
Total revenue and other income							611,485	908,185
Result								
EBITDA*	(50,337)	(35,506)	(51,881)	(49,053)	(25,721)	(6,102)	(127,939)	(90,661)
Depreciation and amortisation	(5,892)	(9,578)	(3,874)	(5,952)	(1,462)	(2,213)	(11,228)	(17,743)
Impairment of intangible assets	(10,959)	(55,803)	(42,744)	(9,458)	(307,562)	(814,245)	(361,265)	(879,506)
Loss before tax and net finance expense	(67,188)	(100,887)	(98,499)	(64,463)	(334,745)	(822,560)	(500,432)	(987,910)
Net finance expense							(50,717)	(41,558)
Loss before income tax							(551,149)	(1,029,468)
Income tax (expense)/benefit							4,318	11,873
Net loss after income tax							(546,831)	(1,017,595)
 EBITDAW**	 (34,864)	 (7,657)	 (35,311)	 (31,663)	 (5,920)	 (10,023)	 (76,095)	 (49,343)
Total segment assets	400,124	429,675	443,268	512,157	287,902	792,199	1,131,294	1,734,031
Total segment liabilities	355,683	316,555	802,335	794,308	222,092	318,071	1,380,110	1,428,934
Net assets/(liabilities) per statement of financial position	44,441	113,120	(359,067)	(282,151)	65,810	474,128	(248,816)	305,097

*EBITDA = Earnings before net interest, taxes, depreciation, amortisation and impairment.

**EBITDAW = Earnings before net interest, taxes, depreciation, amortisation, impairment and movement in WIP.

Notes to the Financial Statements

For the Year Ended 30 June 2017

Note 3: Financial Performance

3.1. Revenue from Contracts with Customers

3.1.1. Accounting Policies

Provision of Legal Services – Personal Injury Law Claims

The personal injury law practice operates on the basis of No Win – No Fee conditional fee arrangements, whereby fees are earned only in the event of a successful outcome of a customer's claim. In some cases, fees may be fixed, depending on the stage at which a matter concludes. For some arrangements (primarily in the UK), fees are fixed as a specified percentage of damages awarded under a claim.

In personal injury matters, contracts with clients generally comprise a single distinct performance obligation, being the provision of services in pursuit of the successful settlement of a customer's claim, and the transaction price is allocated to this single performance obligation. Some contracts contain multiple deliverables – such as legal services in respect of a statutory claim and a common law claim, or initial pre-issue work and litigation work. In such circumstances, these multiple deliverables are considered to represent a single distinct performance obligation, given there is a significant service of integration performed by the Group in delivering these services. Management considers the methods used provide a faithful depiction of the transfer of goods or services.

The uncertainty around the fees receivable under a contract is generally only resolved when a matter is concluded. In recognising revenue in the personal injury practice, where the Group has sufficient historical experience in similar contracts in order to be able to estimate the expected outcome of a group of existing contracts reliably, revenue from the fees from contracts is estimated using the expected value method base. The estimate amount of variable consideration is based on the expected fee for the nature of the legal service with reference to historical fee levels and relative rates of successful and unsuccessful outcomes. To determine the probability of success of a case, a level of judgement is required to be applied based on past experience and historical performance of similar matters.

Expected fees are only included in revenue to the extent that it is highly probable that the cumulative amount of revenue recognised in respect of a contract at the end of a reporting period will not be subject to significant reversal when a matter is concluded.

Where historical averages are not predictive of the probability of outcomes for a given contract, or where the Group has limited historical experience with similar contracts, the expected amount of variable consideration is estimated using a most likely amount approach on a contract by contract basis. In such circumstances, a level of judgement is required to determine the likelihood of success of a given matter, as well as the estimated amount of fees that will be recovered in respect of the matter.

Revenue is recognised when control of a service is transferred to the customer. The Group recognises revenue in respect of personal injury matters "over time" (as opposed to at a "point in time"). A stage of completion approach is used to measure progress towards completion of the performance obligation. The stage of completion is determined using a milestones based approach using prescribed status codes for client matters as the relevant milestones. The percentage completion is determined either by calculating the average fee received for matters that resolve at a particular status code as a percentage of the average fee received for matters that resolve at that status and any later status, or by use of defined completion allocations based on historical performance.

Estimates of revenues (including interim billing), costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

The Group has determined that no significant financing component exists in respect of the personal injury revenue streams. This is because in personal injury matters, a substantial amount of the consideration promised by the customer is variable subject to the occurrence or non-occurrence of a future event that is not substantially within the control of the customer or the Group.

A receivable in relation to these services is recognised on settlement of the client matter and when a bill has been invoiced, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The Company arranges for the disbursement activities on behalf of the client; however it does not control the output from those activities. The Company cannot influence the content of the medical reports or court filings, therefore no profit margin is recognised on the activities and the clients are charged the direct cost incurred by the Company. As such, the Company acts as an agent for disbursements, which are only recognised when it is assessed that a reimbursement will be received from the client or on his or her behalf. The disbursements are treated as a separate asset. The amount recognised for the expected reimbursement does not exceed the relevant costs incurred.

The amount of any expected reimbursement is reduced by an allowance for non-recovery based on past experience.

Notes to the Financial Statements

For the Year Ended 30 June 2017

3.1.1 Accounting Policies (continued)

When new businesses are acquired, there is a transition period during which time the Group's practices and procedures are embedded into the operations of the new business. Therefore the valuation of work in progress acquired in a business combination may be adjusted during the period of provisional accounting for the acquisition.

Provision of Legal Services – General Law Legal Services

The Group also earns revenue from provision of general legal services, incorporating project litigation. Revenue for general legal services is recognised over time in the accounting period when services are rendered.

Fee arrangements from general legal services include fixed fee arrangements, unconditional fee for service arrangements ("time and materials"), and variable or contingent fee arrangements (including No Win – No Fee arrangements for services including project litigation, and some consumer and commercial litigation).

For fixed fee arrangements, revenue is recognised based on the stage of completion with reference to the actual services provided as a proportion of the total services expected to be provided under the contract. The stage of completion is tracked on a contract by contract basis using a milestone based approach, which was explained above.

In fee for service contracts, revenue is recognised up to the amount of fees that the Group is entitled to invoice for services performed to date based on contracted rates.

The Group estimates fees for variable or conditional service fee arrangements using a most likely amount approach on a contract by contract basis. Management makes a detailed assessment of the amount of revenue expected to be received and the probability of success of each case. Variable consideration is included in revenue only to the extent that it is highly probable that the amount will not be subject to significant reversal when the uncertainty is resolved (generally when a matter is concluded).

Certain project litigation matters are undertaken on a partially funded basis. The Group has arrangements with third party funders to provide a portion of the fees receivable on a matter over time as services are performed. In such arrangements, the funded portion of fees is billed regularly over time and is not contingent on the successful outcome of the litigation. The remaining portion of fees is variable consideration which is conditional on the successful resolution of the litigation. The variable consideration is included in revenue as services are performed only to the extent that it is highly probable that the amount will not be subject to significant reversal when the uncertainty is resolved.

As in the case of personal injury claims, estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

The Group has determined that no significant financing component exists in respect of the general law services revenue streams. This has been determined on fee for service and fixed fee arrangements as the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. For No Win - No Fee arrangements this has been determined because a significant amount of the consideration promised by the customer is variable subject to the occurrence or non-occurrence of a future event that is not substantially within the control of the customer or the Group.

A receivable in relation to these services is recognised when a bill has been invoiced, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Provision of Other Services – Slater Gordon Solutions

Legal Services

Revenue from Road Traffic Accidents ("RTA") and Employer Liability/Public Liability ("EL/PL") files is recognised over the life of the case based on prescribed milestones in a matter.

The legal services practice operates on the basis of No Win – No Fee conditional fee arrangements and applies the same accounting policies as personal injury claims described above. In some cases, fees may be fixed, depending on the stage at which a matter concludes. For some arrangements, fees are fixed as a specified percentage of damages awarded under a claim.

Vehicle Hire and Repair

Revenue from the provision of car repair is recognised at a point in time. Revenue from the provision of car hire and cost recovery services are recognised over the time that the services are performed.

For car repair services, revenue is recognised upon completion of all repair work and upon the customer signing a "client satisfaction note" in taking back possession of the car. The amount of revenue recognised is the amount as agreed in writing between the parties prior to the service being provided in the repair contract.

For car hire and cost recovery services, the revenue is recognised over time, being the period between the commencement of the car hire and settlement of costs through the Third Party Insurer ("TPI"). The amount of revenue recognised is the amount as agreed in writing between the parties prior to the service being provided in the hire rental agreement.

Notes to the Financial Statements

For the Year Ended 30 June 2017

3.1.1 Accounting Policies (continued)

Work in progress is only included in revenue to the extent that it is highly probable that the cumulative amount of revenue recognised in respect of a contract at the end of a reporting period will not be subject to significant reversal when a matter is concluded. A dilution rate is applied on the invoice to recognise the fact that there may be a settlement adjustment with the insurer if the insurer disputes any costs. This also takes into account the fact that some cases may not be 'no fault'.

A receivable in relation to these services is recognised when a bill has been issued, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

For car hire and repair services provided for not at fault clients, the Group acts as a principal. Although the services are provided by third party suppliers, the Group has the primary responsibility to ensure that the services have been delivered to the clients. The Group cannot vary the prices set by the supplier, as it is governed by an industry framework and the Group collects the revenue from the customer and bears all credit risk.

Revenue resulting from car hire and repair services within SGS Motor Services is recognised on a gross basis.

Medical Reports and Rehabilitation Services

Revenue from the provision of medical appointments and rehabilitation services is recognised at a point in time.

For medical appointments, the revenue is recognised when the medical report is received from the medical expert. The amount of revenue recognised is based on the average fee per case calculated on a historic basis. This value remains in work in progress until the medical report is issued to the Instructing Party ('IP') at which point the sales invoice is raised.

For rehabilitation services, the revenue is recognised when the course of treatment is completed and the final assessment or discharge report is issued to the IP. The amount of revenue recognised is based on the average fee per case calculated on a historic basis. This value remains in work in progress until the final assessment or discharge report is issued to the IP at which point the sales invoice is raised.

A receivable in relation to these services is recognised when a bill has been issued, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Contract Costs

Applying the practical expedient in paragraph 94 of AASB 15, the Group recognises the incremental costs of obtaining contracts as an expense when incurred.

Critical Accounting Estimate and Judgements

(i). Identifying the Performance Obligation

In personal injury matters, contracts with clients generally comprise a single distinct performance obligation, being the provision of services in pursuit of the successful settlement of a customer's claim, and the transaction price is allocated to this single performance obligation. Some contracts contain multiple deliverables – such as legal services in respect of a statutory claim and a common law claim, or initial pre-issue work and litigation work. In such circumstances, these multiple deliverables are considered to represent a single distinct performance obligation, given there is a significant service of integration performed by the Group in delivering these services. Management considers the methods used provide a faithful depiction of the transfer of goods or services.

The Group has some contractual arrangements outside of personal injury matters that include multiple performance obligations. In these transactions, the transaction price must be allocated to the performance obligations on a relative stand-alone selling price basis. In most cases, the price for each separate performance obligation is identified in the contract and in most cases, these prices are considered to be reflective of the stand-alone selling price of each performance obligation.

The Group notes that it is not practicable to determine and track on a case-by-case basis the elements of a transaction that should be attributed to pre- and post-acquisition performance, given the nature of the estimates of variable consideration, and the methodology adopted (based around actual historical average fees and estimates of success rates on a cohort-by-cohort rather than case-by-case basis).

(ii). Estimating the Transaction Price: Variable Consideration – No Win – No Fee Arrangements

The Group provides various services on the basis of No Win – No Fee conditional fee arrangements. The uncertainty around the fees ultimately receivable under these types of contracts is generally only fully resolved when a matter is concluded.

Where the Group has sufficient historical experience in similar contracts in order to be able to estimate the expected outcome of a group of existing contracts reliably, revenue is estimated using the expected value method. Fees are only included in revenue to the extent that it is highly probable that the cumulative amount of revenue recognised in respect of a contract at the end of a reporting period will not be subject to significant reversal when a matter is concluded.

Notes to the Financial Statements

For the Year Ended 30 June 2017

3.1.1 Accounting Policies (continued)

To determine the probability of success of a case using the expected value method, a level of judgement is required to be applied based on past experience and historical performance of similar matters. The estimated amount of variable consideration is based on the expected fee for the nature of the legal service provided with reference to internal historical fee levels and relative rates of successful and unsuccessful outcomes.

Where historical averages are not predictive of the probability of outcomes for a given contract, or where the Group has limited historical experience with similar contracts, the expected amount of variable consideration is estimated using a most likely amount approach on a contract by contract basis. In such circumstances, a level of judgement is required to determine the likelihood of success of a given matter, as well as the estimated amount of fees that will be recovered in respect of the matter.

In addition, when new businesses are acquired, there is a transition period during which time the Group's practices and procedures are embedded into the operations of the new business. Therefore the valuation of work in progress acquired in a business combination may be adjusted during the period of provisional accounting for the acquisition.

(iii). Measuring the Stage of Completion

Revenue is recognised when control of a service is transferred to the customer. The Group recognises revenue in respect of personal injury matters "over time" (as opposed to at a "point in time"). A stage of completion approach is used to measure progress towards completion of the performance obligation. The stage of completion is determined using a milestones based approach using prescribed status codes for client matters as the relevant milestones. The percentage completion is determined either by calculating the average fee received for matters that resolve at a particular status code as a percentage of the average fee received for matters that resolve at that status and any later status, or by use of defined completion allocations based on historical performance.

In addition, when new businesses are acquired, there is a transition period during which time the Group's practices and procedures are embedded into the operations of the new business. Therefore the valuation of work in progress acquired in a business combination may be adjusted during the period of provisional accounting for the acquisition.

3.1.2. Disaggregation of Revenue from Contracts with Customers

The Group derives revenue from the transfer of goods and services over time and at a point in time, in the major product lines of Personal Injury Law ("PIL") and General Law ("GL") and the geographical regions of Australia and the UK:

	Australia		UK		SGS	Total
	PIL	GL	PIL	GL		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Year ended 30 June 2017						
Type of contract:						
Fixed price	-	15,875	1,373	8,952	41,724	67,924
Time and Materials	-	22,608	6,351	36,507	80,266	145,732
No Win – No Fee	155,430	17,360	87,417	614	126,982	387,803
Revenue from contracts with customers	155,430	55,843	95,141	46,073	248,972	601,459
Year ended 30 June 2016						
Type of contract:						
Fixed price	-	22,448	1,862	10,066	72,098	106,474
Time and Materials	-	29,532	5,025	41,733	164,761	241,051
No Win – No Fee	173,721	12,080	151,417	2,464	204,263	543,945
Revenue from contracts with customers	173,721	64,060	158,304	54,263	441,122	891,470

Notes to the Financial Statements

For the Year Ended 30 June 2017

3.2. Expenses

3.2.1. Accounting Policies

Interest

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Depreciation

The depreciable amounts of all property, plant and equipment, excluding land, are depreciated over their estimated useful lives, commencing from the time the asset is held ready for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The depreciation rates used for each class of assets are:

Class of Fixed Asset	Depreciation Rates	Depreciation Method
Plant and equipment	5.00 – 66.67%	Straight Line and Diminishing Value
Low value asset pool	18.75 – 37.50%	Diminishing Value

Amortisation

Amortisation is calculated using a straight-line method to allocate the cost of intangible assets over their estimated useful lives. Amortisation commences when the intangible asset is available for use.

Software development costs have been assessed as having a finite useful life and once operating in the Group are amortised over the useful life of 5-8 years. Trademarks, prior to their full impairment during the current year, that have been assessed as having a finite useful life were amortised over the useful life of 3 years.

Share Based Payments

The accounting policy for share based payments is included in Note 5.6.

3.2.2. Expense Analysis by Nature

	2017 \$'000	2016 \$'000
Finance costs expense		
Interest and fees on bank overdraft and loans (includes costs of borrowing)	51,361	41,293
Interest on deferred consideration payable to vendor on acquisitions	96	623
Interest on obligations under hire purchases	454	632
	51,911	42,548
Salaries and employee benefit expense		
Wages and salaries	309,941	398,747
Post-employment benefits	14,813	16,290
Share based payments expense	550	1,257
	325,304	416,294
Cost of sales		
Ancillary revenue	61,446	147,806
Rendering of services – non-legal	18,500	22,491
	79,946	170,297
Depreciation and Amortisation		
Property, plant & equipment	7,033	8,195
Software development	4,068	4,489
Trademarks	127	5,059
	11,228	17,743
Research costs expensed	-	255

Notes to the Financial Statements

For the Year Ended 30 June 2017

3.3. Cash Flow Information

	2017 \$'000	2016 \$'000
Reconciliation of profit for the period to cash flows from operating activities		
Loss after income tax	(546,831)	(1,017,595)
Non-cash flows in profit from ordinary activities		
Notional interest on VCR share loans	(859)	(611)
Depreciation and amortisation	11,228	17,743
Impairment of intangibles	361,265	879,506
Share based payment expenses	7,720	15,957
Accrual for payments to former owners	4,453	18,529
Notional interest on deferred consideration	96	623
Bad and doubtful debts	47,885	39,342
Deferred costs of borrowing	12,313	10,850
Notional FX (gain) / loss	(1,354)	2,323
Interest Rate Swap Expense	566	-
Interest Expense Capitalised	31,404	-
Other non-cash items	(3,106)	-
Items shown in investing activities		
Costs associated with acquisition	3	738
Proceeds from disposal of businesses	(3)	(168)
Changes in assets and liabilities		
Increase in receivables	(2,234)	(37,241)
Decrease / (increase) in other assets	3,511	(1,972)
Decrease in work in progress	52,323	40,486
Decrease in payables	(33,944)	(70,146)
Increase in income tax payable	15,435	6,702
(Decrease) / increase in net deferred tax	(1,183)	6,698
Increase in deferred borrowings costs	-	(4,172)
Decrease in vendor liabilities	(189)	(3,878)
Increase / (decrease) in provisions	2,413	(7,958)
Cash flows used in operating activities	(39,088)	(104,244)

3.4. Income and Other Taxes

3.4.1. Accounting Policies

Income and other taxes consist of income tax, Goods and Services Tax and Value Added Tax.

Current income tax expense or benefit for the current and prior periods is measured at the amount expected to be recovered from or paid to the tax authorities. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group operates.

Deferred tax assets and liabilities are recognised for temporary differences at the applicable tax rates when the assets are expected to be recovered or liabilities are settled. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, and at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred tax for the year are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Notes to the Financial Statements

For the Year Ended 30 June 2017

3.4.1. Accounting Policies (continued)

Critical Accounting Estimates and Judgements

Deferred tax assets and liabilities are based on the assumption that no adverse change will occur in the income tax legislation both in Australia and the UK and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Deferred tax assets are recognised only if management considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Goods and Services Tax ("GST") and Value Added Tax ("VAT")

Revenue, expenses and assets are recognised net of the amount of GST/VAT, except where the GST/VAT incurred is not recoverable from the Australian Taxation Office ("ATO"), UK Her Majesty's Revenue and Customs ("HMRC") or Malta Inland Revenue ("MIR") and is therefore recognised as part of the asset's cost or as part of the expense item. Receivables and payables are stated inclusive of GST/VAT.

The net amount of GST/VAT recoverable from, or payable to, the ATO/HMRC/MIR is included as part of receivables or payables in the consolidated statement of financial position.

3.4.2. Income Tax Expense

The major components of income tax expense are:

	2017 \$'000	2016 \$'000
Consolidated statement of profit or loss		
Current income tax (benefit)/expense	3,636	(9,482)
Adjustment for current tax relating to prior periods	364	(12,167)
Deferred income tax relating to the origination and reversal of temporary differences	(8,318)	9,776
	(4,318)	(11,873)
Consolidated statement of OCI		
Deferred tax credit arising on revaluation of cash flow hedges	266	(144)
Deferred tax charge arising on foreign exchange gain on revaluation of loans	105	(310)
	371	(454)
Income tax recognised directly in equity		
Current tax credit on share issue costs	-	(26)
	-	(26)

Notes to the Financial Statements

For the Year Ended 30 June 2017

	2017 \$'000	2016 \$'000
Deferred income tax (benefit) /expense included in income tax expense		
(Increase)/decrease in deferred tax assets	(15,483)	41,505
Deferred income tax relating to items charged to OCI	(371)	454
Deferred income tax relating to items charged directly to equity	-	26
Decrease in deferred tax liabilities	(9,836)	(31,138)
Change in tax rates	(945)	-
Deferred tax from prior periods	882	-
Derecognition of deferred tax asset on tax losses	25,362	-
Derecognition of deferred tax liability on impairment of brand names	(7,927)	-
Exchange differences	-	(1,071)
	(8,318)	9,776

The prima facie tax payable on profit before tax differs from the income tax expense as follows:

Accounting loss before tax	(551,149)	(1,029,468)
At the Australian statutory income tax rate of 30% (2016: 30%)	(165,344)	(308,840)
Non-deductible expenses	74,929	212,724
Non-assessable income	(872)	(3,016)
Adjustments in respect to prior periods	1,246	175
Difference in overseas tax rate	45,508	74,116
Utilisation of tax losses and reversal of short term timing differences on which no deferred tax asset was previously recognised	2,833	5,327
Deferred tax charged at lower rate	1,156	-
Change in tax rates on deferred tax balances	(945)	-
Write off of deferred tax liability on impairment of brand names	(7,927)	-
Deferred tax assets not recognised	45,098	7,641
Income tax benefit	(4,318)	(11,873)

3.4.3. Recognised Tax Assets and Liabilities

	2017 \$'000	2016 \$'000
Current tax assets		
Balance at the beginning of the year	16,803	34,636
Tax refunded	(16,138)	(29,464)
Adjustments in respect to prior periods	(2)	9,215
Exchange differences	(660)	2,416
Balance at the end of the year	3	16,803
Current tax liability		
Balance at the beginning of the year	(9,301)	(23,412)
Current income tax benefit/(expense)	(3,636)	9,482
Tax paid	5,051	6,289
Adjustments in respect of prior periods	(364)	2,937
Losses utilised	-	(4,597)
Balance at the end of the year	(8,250)	(9,301)

Notes to the Financial Statements

For the Year Ended 30 June 2017

	2017 \$'000	2016 \$'000
Deferred tax assets		
Provision for impairment	5,532	3,521
Employee benefits	6,828	6,931
Provision for legal costs	896	552
Accruals	9,818	2,788
Non-deducted business related costs	487	144
Fair value of cash flow hedges	256	521
Unrendered WIP and disbursements not yet deducted	-	326
Other	1,282	1,577
Property, plant and equipment	2,630	-
Revenue losses carried forward	696	26,811
Advanced Company Income Tax ("ACIT") refund in Malta	6,293	3,554
Balance at the end of the year	34,718	46,725
Deferred tax liabilities		
Prepayments	(971)	(629)
Work in progress	(72,227)	(77,987)
Unrendered disbursements	(13,689)	(12,156)
Intangibles/Goodwill	-	(17,179)
Foreign currency translation reserve	(6,529)	(6,424)
Other	55	1,425
Balance at the end of the year	(93,361)	(112,950)

3.4.4. Unrecognised Deferred Tax Assets

At 30 June 2017 the Group has unrecognised deferred tax assets of \$160.8m (2016: \$53.6m) mainly relating to unrecognised tax losses as well as costs incurred for Trademarks and acquisition costs. No deferred tax has been recognised for these costs as the Group does not plan to dispose of the relevant subsidiaries in the foreseeable future. The majority of the deferred tax assets on tax losses carried forward are also unrecognised.

3.5. Dividends

	2017 \$'000	2016 \$'000
Dividends paid during the year		
<i>Dividends on ordinary shares</i>		
No interim dividend paid for 2017 (2016: No interim dividend paid)	-	-
No final dividend for 2016 (2015: 5.50 cents, partially franked (40%))	-	19,330
Total dividends paid during the year	-	19,330

Dividends proposed and not recognised as a liability

Dividends on ordinary shares

No final dividend proposed for 2017 (2016: No final dividend paid)	-	-

Franking credits available

Franking credits at year end are adjusted for credits arising from payment of provision for income tax and after deducting franking credits to be used in payment of proposed dividends:

-	844

Notes to the Financial Statements

For the Year Ended 30 June 2017

3.6. Loss per Share

The following reflects the loss and share data used in the calculations of basic and diluted loss per share:

	2017 \$'000	2016 \$'000
Loss used in calculating basic and diluted earnings per share	(546,549)	(1,017,306)
Weighted average number of ordinary shares used in calculating basic loss per share ('000's)	351,351	351,907
Adjusted weighted average number of ordinary shares used in calculating diluted loss per share ('000's)	351,351	352,085

Note 4: Assets and Liabilities

This section shows the assets used to generate the Group's revenue and the liabilities incurred as a result. Liabilities relating to the Group's financing activities are disclosed in Section 5. Deferred tax assets and liabilities are disclosed in note 3.4.

On the following pages there are notes covering intangible assets, working capital, work in progress, other non-current assets, payables and provisions.

4.1. Intangible Assets

4.1.1. Accounting Policies

Goodwill

Goodwill was initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed.

Goodwill was not amortised, but was tested annually for impairment or more frequently if events or changes in circumstances indicated that it might be impaired. Prior to being fully impaired during the current year, goodwill was carried at cost less any accumulated impairment losses.

Software Development Costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the entity is able to use or sell the asset; the entity has sufficient resources and intent to complete the development and its costs can be measured reliably. Capitalised development expenditure is stated at cost less accumulated amortisation and accumulated impairment losses.

Notes to the Financial Statements

For the Year Ended 30 June 2017

4.1.1 Accounting Policies (continued)

Trademarks and Brand Names

Trademarks acquired in a business combination and recognised separately from goodwill were initially recognised at their fair value at the acquisition date (which is regarded as their cost). The fair value of trademarks was based on the discounted estimated royalty payments that have been avoided as a result of the trademark being owned.

Prior to their full impairment during the current year, trademarks were carried at cost less accumulated amortisation and any accumulated impairment losses.

	Goodwill \$'000	Software Development \$'000	Trademarks & Brand Names \$'000	Total \$'000
Gross Cost	1,119,599	38,006	53,452	1,211,057
Accumulated amortisation	-	(20,597)	(9,759)	(30,356)
Accumulated impairment loss	(786,731)	-	-	(786,731)
At 30 June 2016	332,868	17,409	43,693	393,970
Gross Cost	1,119,599	41,605	53,452	1,214,656
Accumulated amortisation	-	(23,427)	(12,199)	(35,626)
Accumulated impairment loss	(1,119,599)	(5,066)	(41,253)	(1,165,918)
At 30 June 2017	-	13,112	-	13,112

Movement in carrying amounts

Balance at 1 July 2015	1,269,456	19,076	54,692	1,343,224
Additions	-	5,314	-	5,314
Exchange differences	(57,082)	(2,437)	(5,940)	(65,459)
Amortisation expense	-	(4,489)	(5,059)	(9,548)
Impairment expense	(879,506)	-	-	(879,506)
Disposals	-	(55)	-	(55)
Balance at 30 June 2016	332,868	17,409	43,693	393,970
Additions	-	5,959	-	5,959
Reclassifications from property, plant and equipment	-	(52)	-	(52)
Exchange differences	(17,922)	(790)	(2,313)	(21,025)
Amortisation expense	-	(4,068)	(127)	(4,195)
Impairment expense	(314,946)	(5,066)	(41,253)	(361,265)
Disposals	-	(280)	-	(280)
Balance at 30 June 2017	-	13,112	-	13,112

4.1.2. Impairment Testing of Goodwill and Indefinite Life Intangible Assets

For the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable, largely independent cash inflows (cash generating units "CGU's"). Goodwill and indefinite life intangible assets are allocated to CGU's according to applicable business operations as follows:

	AUS PIL	AUS GL	UK PIL	UK GL	UK SGS	Total
2017						
Goodwill recognised (\$'000)	-	-	-	-	-	-
Indefinite life intangibles (\$'000)	-	-	-	-	-	-
2016						
Goodwill recognised (\$'000)	5,893	-	43,532	-	283,443	332,868
Indefinite life intangibles (\$'000)	57	-	1,715	-	41,921	43,693

Impairment testing is completed at least annually for goodwill, intangible assets not yet ready for use and indefinite life intangible assets or more frequently if events or changes in circumstances indicate that the asset may be impaired.

Notes to the Financial Statements

For the Year Ended 30 June 2017

4.1.2 Impairment Testing of Goodwill and Indefinite Life Intangible Assets (continued)

An impairment loss is recognised where the carrying amount of the asset or CGU exceeds its recoverable amount. The recoverable amount of an asset or CGU is defined as the higher of its fair value less costs of disposal and value-in-use.

Critical Accounting Estimates and Judgements

Determining whether goodwill is impaired requires an estimation of the value-in-use of the CGU's to which goodwill has been allocated. The value-in-use calculation requires management to estimate the future cash flows expected to arise from the CGU and a post-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

4.1.3. Impairment Losses Recognised

As at 31 December 2016, the Group considered the performance of the UK businesses which had underperformed against budget and previous forecasts. Whilst the Group's UK business had shown signs of improvement, recovery had been slower than anticipated and given this, it was considered that the UK business showed indicators of being further impaired. As a result, management performed an impairment test as at 31 December 2016 for all CGUs in the UK. The impairment test was based on a fair value less costs of disposal methodology which resulted in all remaining UK goodwill and indefinite life intangibles being fully impaired as at 31 December 2016 and an impairment expense of \$350.3m being recognised for the period.

As at 30 June 2017, the remaining goodwill relating to the Australian CGU was tested for impairment. The impairment test was based on a value-in-use methodology and an impairment expense of \$5.9m was recognised for the period. This additional impairment resulted in a total impairment relating to goodwill for the year ended 30 June 2017 of \$356.2m.

As the carrying value of the Australian CGU (specifically Victorian PIL) was in excess of the recoverable amount, the excess was applied to corporate assets of the Australian business. As a result, the software assets of the Australian business were fully impaired at 30 June 2017 and an impairment expense of \$5.1m was also recognised for the year.

Goodwill in the following CGUs were impaired during the year ended 30 June 2017:

CGU	Impairment loss	Recoverable amount
	\$'000	\$'000
Slater & Gordon Solutions (SGS) (31 December 2016)	307,560	70,181
UK – PIL (31 December 2016)	42,744	42,794
Australia (30 June 2017)	5,893	94,541

4.1.4. Key Assumptions used in the recoverable amount calculations

UK CGUs

A fair value less costs of disposal approach was used to calculate the recoverable amount of the UK CGUs. It was calculated using a discounted cash flow model and is considered to be a Level 3 valuation in the fair value hierarchy. The calculated recoverable amount was based on valuations performed by an external consultant using a statistical simulation of a range of future cash flow assumptions and scenarios. The scenarios modelled used a range of discount rates between 15% and 22% which took into account the current risks and circumstances of the UK operations. The forecast cash flows were projected over a period of 10.5 years, beyond which period a terminal growth rate of 2% was used to extrapolate cash flow projections. The recoverable amount of the UK CGUs was measured using a value-in-use basis in the prior year.

In the year ended 30 June 2017, an external consultant was engaged to perform a valuation for financing purposes and the Directors considered this valuation to be the most reliable measure of recoverable amount for the CGUs.

The goodwill and indefinite life intangibles in all UK CGUs are now fully impaired as at 30 June 2017.

Australian CGU

A value in use model was used to calculate the recoverable amount of the Australian CGU (specifically Victorian PIL). The calculated recoverable amount was based on internally prepared future cash flow forecasts which took into account the current risks and circumstances of the operations. The cash flow model used a discount rate of 15% reflecting the uncertainty surrounding the business at 30 June 2017. The forecast cash flows were projected over a period of 5 years, beyond which period a terminal growth rate of 2% was used to extrapolate cash flow projections.

The recoverable amount of the Australian CGU (specifically Victorian PIL) was measured using a value-in-use basis. The goodwill and indefinite life intangibles in the Australian CGU are now fully impaired as at 30 June 2017.

Notes to the Financial Statements

For the Year Ended 30 June 2017

4.2. Receivables

4.2.1. Accounting Policies

Collectability of trade debtors is reviewed at each reporting period. Management considers whether further impairment of debtors is required based on the aging profile and use calculated historical rates of recovery to determine the required impairment. Debts that are known to be uncollectible are written off when identified.

Disbursements are only recognised when it is assessed that a reimbursement will be received from the client or on his or her behalf. The disbursements are treated as a separate asset. The amount recognised for the expected reimbursement does not exceed the relevant costs incurred. The amount of any expected reimbursement is reduced by an allowance for non-recovery based on past experience.

	2017 \$'000	2016 \$'000
Current		
Trade receivables	226,412	299,502
Impairment of trade receivables	(69,437)	(92,824)
	156,975	206,678
Disbursements	301,291	340,605
Allowance for non-recovery	(65,694)	(76,573)
	235,597	264,032
Other receivables	2,894	1,667
	395,466	472,377
Non-current		
Disbursements	119,847	88,991
Allowance for non-recovery	(28,355)	(23,600)
	91,492	65,391
Impairment of receivables		
Balance at beginning of the year	(92,824)	(104,327)
Receivables written off as uncollectible	29,647	835
Provision for impairment recognised, including balances from business acquisitions	(7,114)	(9,059)
Release of provisions	4,853	-
Movement in provision for discount	(9,126)	7,856
Foreign exchange translation differences	5,127	11,871
Balance at end of the year	(69,437)	(92,824)

The comparative for the allowance for non-recovery of non-current disbursements has been decreased by \$56.5m with an offsetting reclassification to the allowance for non-recovery of current disbursements.

As at 30 June, the ageing analysis of trade receivables is as follows:

	Total	<30 days	30-60 days	61-90 days	91-180 days	>180 days
2017	226,412	91,107	20,743	12,136	24,135	78,291
2016	299,502	98,654	26,349	18,613	31,558	124,328

See note 5.4.4 regarding credit risk of trade receivables, which explains how the Group manages and measures credit quality of trade receivables.

Notes to the Financial Statements

For the Year Ended 30 June 2017

4.3. Work in Progress

4.3.1. Accounting Policies

Work in progress represents client cases which have not yet reached a conclusion and comprises personal injury cases, services performed ancillary to personal injury cases, non-personal injury cases and project litigation cases. Refer to note 3.1 for further details.

Contracts for legal services are billed based on time incurred. As permitted under AASB 15, the transaction price allocated to the unsatisfied or partially unsatisfied performance obligations under these contracts has not been disclosed.

The Group allocates work in progress between current and non-current classifications based on a historical analysis of the Group's work in progress balances and velocity rates to determine expected timing of settlements.

	2017 \$'000	2016 \$'000
Current		
Personal injury	268,424	333,792
Project litigation	14,324	10,613
Other	12,123	17,493
	294,871	361,898
Non-current		
Personal injury	219,855	224,174
Project litigation	239	1,461
	220,094	225,635

Notes to the Financial Statements

For the Year Ended 30 June 2017

4.4. Property, Plant and Equipment

4.4.1. Accounting Policies

Property, plant and equipment is measured at cost less accumulated depreciation and any accumulated impairment losses.

An asset's residual value and useful life is reviewed, and adjusted if appropriate, at the end of each reporting period. Any depreciation and impairment losses of an asset are recognised in profit or loss.

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss when the asset is derecognised.

	Plant & Equipment \$'000	Land & Buildings \$'000	Low Value Asset Pool \$'000	Total \$'000
Gross Cost	77,345	265	2,877	80,487
Less accumulated depreciation	(45,173)	-	(2,107)	(47,280)
At 30 June 2016	32,172	265	770	33,207
Gross Cost	77,624	249	2,995	80,868
Less accumulated depreciation	(51,903)	-	(2,410)	(54,313)
At 30 June 2017	25,721	249	585	26,555

Movement in carrying amounts

Balance at 1 July 2015	30,836	302	821	31,959
Additions	12,443	-	300	12,743
Reclassification of plant & equipment	(40)	-	40	-
Exchange differences	(2,478)	(37)	(21)	(2,536)
Depreciation expense	(7,825)	-	(370)	(8,195)
Disposals	(764)	-	-	(764)
Balance at 30 June 2016	32,172	265	770	33,207
Additions	1,858	-	139	1,997
Exchange differences	(920)	(16)	-	(936)
Depreciation expense	(6,730)	-	(303)	(7,033)
Disposals	(659)	-	(21)	(680)
Balance at 30 June 2017	25,721	249	585	26,555

The carrying amount of plant and equipment under finance lease included above amounted to \$4,533,000 (30 June 2016: \$6,784,000).

Notes to the Financial Statements

For the Year Ended 30 June 2017

4.5. Payables

4.5.1. Accounting Policies

Trade creditors and accruals are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

Legal creditors are carried at cost and represent liabilities in relation to disbursements where there is an agreement with the vendor that payment will not be made by the Group until the Group has received payment from any settlement proceeds on the matter.

Vendor liabilities are carried at net present value and refer to deferred consideration payable to vendors in relation to previous acquisitions.

	2017 \$'000	2016 \$'000
Current		
<i>Unsecured liabilities</i>		
Trade creditors and accruals	150,026	173,672
Legal creditors	268,009	287,655
Vendor liabilities – acquisitions	584	2,243
	418,619	463,570
Non-current		
<i>Unsecured liabilities</i>		
Vendor liabilities – acquisitions	-	510

4.6. Provisions

4.6.1. Accounting Policies

Non-employee provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, for which it is probable that an outflow of economic benefits will result in an amount that can be reliably measured.

Solicitor Liability Claims – Critical Accounting Estimates and Judgements

A provision for solicitor liability claims is made for the potential future cost of claims brought against the Group by former clients. The provision relates to open claims and potential future claims as identified at the end of the reporting period. The provision is determined based on historical data, taking into account the nature of the existing claim, expected reimbursed expense and includes the estimated maximum amount payable by the Group under its Professional Indemnity Insurance Policy on all claims notified to its insurer.

Employee Benefits

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at the amounts based on remuneration rates which are expected to be paid when the liability is settled. Liabilities arising later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. These estimated future cash flows have been discounted using market yields, at the reporting date, on high quality corporate bonds with matching terms to maturity.

A bonus provision is recognised when it is payable in accordance with the employee's contract of employment and the amount can be reliably measured.

A provision for termination benefits is recognised when the entity can no longer withdraw the offer of those benefits, or if earlier, when the termination benefits are included in a formal restructuring plan that has been announced to those affected by it.

Employee benefit obligations are presented as current liabilities if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

Onerous Contracts

An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs are the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfil the contract. The economic benefits expected to be received include direct and indirect benefits under the contract and contractual and non-contractual benefits.

A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. For leased premises, the provision also includes any costs associated with remediating the premises to the condition agreed in the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract if applicable.

Notes to the Financial Statements

For the Year Ended 30 June 2017

Third Party disbursements

The Group has an agreement with a third party disbursement funder, who funds disbursements in respect of individual matters and is reimbursed out of any settlement proceeds on the matter. The Group has provided a financial guarantee to the funder for the repayment of clients' obligations. The provision for third party disbursements reflects the value of clients' obligations that are not expected to be recovered by the disbursement funder.

4.6.2. Provisions

	2017 \$'000	2016 \$'000
Current		
Employee benefits	19,176	19,700
Solicitor liability claims	12,479	9,158
Provision for third party disbursements	880	-
Provision for onerous contracts	5,294	4,160
Provision for payments to former owners	5,550	19,437
Other provisions	11,153	-
	54,532	52,455
Non-current		
Employee benefits	3,429	3,404
Provision for onerous contracts	3,286	3,804
Provision for dilapidations	7,475	7,829
Other	6,982	-
	21,172	15,037

4.7. Fair Value Measurements

4.7.1. Accounting Policies

Critical Accounting Estimates and Judgements

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The fair value of financial assets and financial liabilities not measured at fair value approximates their carrying amounts as disclosed in the Statement of Financial Position and Notes to the Financial Statements, except as set out below.

4.7.2. Fair Value Hierarchy

30 June 2017	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Recurring fair value measurements				
<i>Financial liabilities</i>				
Derivative financial instruments – interest rate swaps	-	1,419	-	1,419
Contingent consideration *	-	-	455	455
	-	1,419	455	1,874
30 June 2016	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Recurring fair value measurements				
<i>Financial liabilities</i>				
Derivative financial instruments – interest rate swaps	-	2,841	-	2,841
Contingent consideration *	-	-	2,068	2,068
	-	2,841	2,068	4,909

* Part of Vendor Liabilities which are included in Payables in the Statement of Financial Position

Notes to the Financial Statements

For the Year Ended 30 June 2017

4.7.3. Valuation Techniques and Inputs used in Level 2 and 3 Fair Value Measurements

The fair value of the interest rate swaps is measured with reference to market data which can be used to estimate future cash flows. The key input into this valuation is the interest rate swap revaluation statement as provided by Westpac Banking Corporation and National Australia Bank.

The fair value of contingent consideration payable in prior business combinations were measured with reference to current fee and performance forecasts which were used to estimate future cash flows. The key inputs into this valuation were the estimated future cash flows and the average discount rate of 9% was used to determine the present value of the future cash flows. The last tranche of contingent consideration is now current and payable in December 2017.

4.7.4. Reconciliation of recurring Level 3 Fair Value Movements

	2017 \$'000	2016 \$'000
Opening balance	2,068	6,090
Payments relating to contingent consideration	(1,505)	(3,584)
Fair value movement on contingent consideration *	(108)	(438)
Closing balance	455	2,068

* Unrealised (gains)/losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income within Other Income

There has been no change in the range of undiscounted contingent consideration outcomes during the year. A reasonable movement in the unobservable inputs would not significantly impact the fair value of contingent consideration as at the end of the reporting period and therefore not impact profit after tax and equity.

Note 5: Capital Structure and Financing

This section outlines how the Group manages its capital structure and related financing costs, including its balance sheet liquidity and access to capital markets.

When managing capital, management's objective is to ensure the Group continues to maintain optimal returns to shareholders and benefits for other stakeholders. This is achieved through the monitoring of historical and forecast performance and cash flows.

5.1. Cash and Cash Equivalents

5.1.1. Accounting Policies

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and short-term deposits with an original maturity of three months or less. For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding banking overdrafts.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST/VAT component of investing and financing activities, which are disclosed as operating cash flows.

5.2. Financing Arrangements

5.2.1. Accounting Policies

Borrowing Costs

Borrowing costs can include interest expense, finance charges in respect of finance leases, amortisation of discounts or premiums, ancillary costs relating to borrowings, and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are expensed in the period which they are incurred, except for borrowing costs incurred as part of the cost of the construction of a qualifying asset which are capitalised until the asset is ready for its intended use or sale.

Notes to the Financial Statements

For the Year Ended 30 June 2017

5.2.2. Financing Arrangements

The Group entered into a multi-currency (AUD/GBP) Syndicated Facility Agreement (“SFA”) in May 2015. This facility was amended in May 2016 with the following structure and maturity profile (these facilities will be referred to subsequently as ‘bills of exchange’):

- a GBP 157,500,000 term loan facility. This facility expires on 29 May 2018 and interest is charged on the loans at LIBOR plus an agreed margin;
- a GBP 157,500,000 term loan facility. This facility expires on 31 March 2019 and interest is charged on the loans at LIBOR plus an agreed margin;
- a GBP 60,000,000 term loan facility, bank guarantee facility and/or letter of credit. This facility expires on 29 May 2018 and interest is charged on the loans at LIBOR plus an agreed margin;
- an AUD 45,000,000 term loan facility. This facility expires on 29 May 2018 and interest is charged on the loans at BBSY Bid plus an agreed margin; and
- an AUD 45,000,000 term loan facility. This facility expires on 31 March 2019 and interest is charged on the loans at BBSY Bid plus an agreed margin.

During the year ended 30 June 2017 \$31.4m of interest payments, equating to 88% of the interest due under this facility, were capitalised into the loans.

Under the amended SFA the Group was required to pay a deferred restructuring fee to its lenders in the form of cash or warrants at the irrevocable election of the lenders. The fee, totalling \$17.8m, has been treated as a transaction cost relating to the underlying borrowing and is being amortised to the income statement over the term of the facility. Refer to note 5.6.6 for further details on how this deferred fee has been accounted for.

The bills of exchange and other ancillary facilities have been used to fund previous business acquisitions, to meet day to day working capital requirements and for general corporate purposes. They are secured by a fixed and floating charge over the assets of the Group.

As at 30 June 2017 the Group remains in compliance with all its undertakings under the SFA and the Directors are of the view that the Group will continue to comply with the obligations under the SFA.

To support the Group’s ongoing liquidity requirements, in May 2017 the Group entered into a \$40m working capital facility with its lenders. The facility will provide the Group with working capital headroom as it continues to execute its plan to restore its financial performance. This facility will be increased subsequent to year end as part of the recapitalisation. Refer to note 5.2.5 below.

Net Debt

The Group has drawings of \$761.6m (30 June 2016: \$765.6m) under the SFA, against limits of \$761.6m at 30 June 2017; and drawings of \$15.0m (30 June 2016: \$nil) under the working capital facility, against a limit of \$40.0m (30 June 2016: \$nil).

The Group has cash on hand of \$33.3m (30 June 2016: \$82.5m), other borrowings of \$5.1m (30 June 2016: \$8.5m), offset by deferred debt raising costs of \$0.7m (30 June 2016: \$9.6m) resulting in net debt of \$747.7m (30 June 2016: \$682.3m) and available liquidity of \$60.0m (30 June 2016: \$88.3m). The Group’s net debt position has increased since 30 June 2016 by \$65.4m, reflecting underlying cash requirements in the business and the capitalisation of interest.

Notes to the Financial Statements

For the Year Ended 30 June 2017

5.2.3. Summary of Borrowing Arrangements

At reporting date, the following banking facilities had been executed and were available.

	2017	2016
	\$'000	\$'000
Total banking facilities		
Bank overdrafts	1,691	5,799
Super senior facility	40,000	-
Bills of exchange	761,599	765,893
Finance lease facility	6,800	10,000
Total credit facilities	810,090	781,692

Facilities utilised

Current

Super senior facility	15,000	-
Bills of exchange ⁽¹⁾	450,192	280
Debt raising costs under the SFA facility ⁽²⁾	(749)	-
Finance lease liability	1,797	3,362
	466,240	3,642

Non-current

Bills of exchange ⁽¹⁾	311,407	765,613
Debt raising costs under the SFA facility ⁽²⁾	-	(9,567)
Finance lease liability	3,295	5,092
	314,702	761,138

⁽¹⁾ Includes capitalised interest costs of \$31.4m (30 June 2016: \$nil) as agreed with the lenders.

⁽²⁾ Comprises the unamortised value of borrowing costs on establishment of \$4.4m (30 June 2016: \$3.7m) and refinance of net debt facilities of \$(3.6m) (30 June 2016: \$5.9m). These costs are deferred on the balance sheet and amortised to the Statement of Profit or Loss and Comprehensive Income (Finance costs) over the earliest maturity date of the facility.

A portion of the bills of exchange is the subject of interest rate swaps to hedge the risk of an adverse interest rate movement. Refer to Note 5.4 for more details.

The bank overdraft facility is arranged with Royal Bank of Scotland (National Westminster Bank) with the general terms and conditions being set and agreed to annually. The current facility is £1.0m (30 June 2016: £1.0m). Interest rates on the bank overdraft are charged at variable rates plus an agreed margin, subject to adjustment.

5.2.4. Recapitalisation Agreement

On 29 June 2017, the Group announced that it had entered into a binding recapitalisation agreement with its Senior Lenders. The key terms of the agreement at that date were the restatement of debt to \$30m in exchange for 95% of the issued capital of the company, creation of a £250m convertible note in the UK and the establishment of a \$5m facility in exchange for the issuance of warrants over a further 1% of the issued capital.

On 31 August 2017, the Group announced that it had entered into an amended binding restructure support deed ("RSD") with its Senior Lenders with revised terms. The Group will seek to implement the recapitalisation via a creditors' scheme of arrangement ("Senior Lender Scheme"). The key terms of the revised recapitalisation are now as follows:

Increased Working Capital Facility

The Group's Senior Lenders have committed to increase the Group's working capital facility by \$50m (refer to note 5.2.5), which will be available for drawdown prior to implementation of the recapitalisation. The additional funding will comprise a \$25m AUD denominated tranche and a \$25m GBP denominated tranche. This funding will be used for general corporate purposes, including costs incurred in connection with the recapitalisation.

Separation of UK operations

On implementation of the creditors' scheme of arrangement to give effect to the recapitalisation, all UK operations and UK subsidiaries will be separated from the Group and transferred to a new UK holding company ("UK HoldCo"). UK HoldCo will be wholly owned by the Senior Lenders. Subsequently, existing shareholders of the Group will cease to have any interest in the Group's existing UK operations or UK subsidiaries. As a result of this, the increase to the working capital facility referred to above will be separated into a \$25m AUD denominated facility for the Australian business and a \$25m GBP denominated facility for the UK business. The Australian business will also retain its \$40m current working capital facility (refer to note 5.2.5) bringing the Australian business facility to \$65m.

The Company believes the separation of the UK operations provides the best option to enable both the Australian and UK operations to succeed in their own right.

Notes to the Financial Statements

For the Year Ended 30 June 2017

Issue of shares in the Company to Senior Lenders

On implementation of the Senior Lender Scheme, Senior Lenders will be issued with approximately 95% of the equity of the Australian parent company and 100% of UK HoldCo. Existing shareholders will hold approximately 5% of the Australian parent company post the recapitalisation. The number of shares to be issued to each Senior Lender will depend on their commitments in respect of the increased working capital facilities and the refinancing of the Company's facilities under the recapitalisation.

New Debt Facilities

Outstanding secured debt will be permanently reduced by a combination of releasing, refinancing and restating debt.

The debt facilities of the Australian company on implementation of the recapitalisation will be as follows:

- a) Super Senior Secured Debt Facility (\$65m): The \$65m facility will have a 3 year term and will be used for working capital purposes.
- b) Restated Debt Facility (\$60m): \$60m of senior secured debt under the Company's existing Syndicated Facility Agreement will be restated on substantially the same terms but amended with a 5 year term and interest not payable in cash until the Senior Secured Debt Facility has been repaid, amongst other changes.
- c) Existing lease facilities of less than \$5m.

In respect of the UK company debt facilities on implementation of the recapitalisation will be as follows:

- a) Super Senior Secured Debt Facility (\$25m): The \$25m facility will be denominated in GBP, will have a 3 year term and will be used for working capital purposes.
- b) Convertible Notes (£250m): S&G UK will issue interest-free convertible notes to Senior Lenders. The convertible notes will entitle the holders to payment of any amounts, up to £250m, received by S&G UK in respect of the net proceeds of Watchstone-related claims above \$40m and certain net proceeds of any asset divestments and insurance proceeds received in respect of the UK operations.

Watchstone Receivable

In addition to the above arrangements, as partial consideration for the transfer of S&G UK shares from the Company to UK HoldCo, the Company will have recourse to the first \$40m of any proceeds that S&G UK receives from Watchstone-related claims (refer to note 7.4.1). These will be applied first to reduction of the Super Senior Secured Debt Facility.

Conditions Precedent

The recapitalisation is conditional upon the satisfaction or waiver (if applicable) of certain conditions precedent, including:

- FIRB Approval – the Treasurer of the Commonwealth has provided written advice or confirmation to the effect there are no objections under the Foreign Acquisitions and Takeovers Act 1975 (Cth) to the restructure, or is otherwise precluded from making an order in respect of the recapitalisation;
- Shareholders of the Company approving the required resolutions at the general meeting by the requisite majorities (if required);
- The approval of the Senior Lender Scheme and Shareholder Creditor Scheme (as described in note 8.1) at the scheme meetings by the requisite majorities of the respective creditors;
- Court approval of the Senior Lender Scheme, the Shareholder Creditor Scheme and the settlement of the Hall Proceeding;
- The Company obtaining all other relevant regulatory approvals, authorisations, consents or waivers, including from ASX and ASIC;
- Each party to a 'Business Separation and Transitional Arrangements Agreement' (or similar document) in respect of the separation of the S&G Group's Australian and UK operations (in a form to be agreed between the Company and the Senior Lenders) duly executing their counterpart and delivering it to the Company such that the agreement has come into effect conditional on implementation of the Senior Lender Scheme;
- Without waiving privilege, the Company receiving written notice from the Lenders that the tax opinion received by the Company is reasonably acceptable to the Lenders;
- The Company receiving cash proceeds in relation to project litigation matters substantially in accordance with budgeted quantum and timing in the period between the date of the RSD and the Scheme Meeting;
- The Company obtaining the consent from each person who is entitled to exercise any right under any provision of any material contract that entitles the person to terminate or modify the contract as a result of the recapitalisation and in respect of which the Majority Supporting Lenders require the Company to seek such consent;
- Deeds poll entered into by certain third parties continue to benefit the beneficiaries named in those deeds poll, and those deeds poll have not been terminated.

Each party must use its respective reasonable endeavours to procure that each of the conditions precedent is satisfied as soon as reasonably practicable.

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For the Year Ended 30 June 2017

The Company or the Majority Supporting Lenders may, if any other condition precedent is not satisfied or waived, or becomes incapable of satisfaction, by 31 December 2017, terminate the RSD if the parties are not able to reach agreement on how to proceed with the recapitalisation following a period of consultation.

The Group believes the recapitalisation will be executed successfully.

5.2.5. Super Senior Secured Debt Facility

To support the Group's ongoing liquidity requirements, up to and beyond the debt recapitalisation, the Group entered into a \$40m working capital facility in May 2017, of which \$15m was drawn prior to year end. The working capital facility is funded by a subset of the Group's lenders, referred to here as "Majority Lenders".

In conjunction with the recapitalisation (note 5.2.4) and as part of the RSD, the working capital facility will be expanded to \$65m for the Australian business and \$25m for the UK business.

The expanded working capital facility is for a 3 year period with drawn amounts payable if the recapitalisation agreement is not finalised by 31 January 2018. Interest is charged on the facility at an agreed fixed rate, although not payable in cash until maturity.

The Group has drawn down \$12.5m on 15 August 2017 and expects to require a further drawdown under this facility of \$12.5m in September 2017.

Prior to the final \$12.5m drawdown of the remainder of the \$40m working capital facility in September 2017, there are several conditions precedent to be satisfied as follows:

- Approval of the Group's FY18-FY20 forecasts by the Majority Lenders;
- Satisfactory evidence that the cost-out initiatives implemented by restructuring firms introduced to the business by the Majority Lenders have made sufficient progress as determined by the Majority Lenders;
- Confirmation by the agent of the Majority Lenders that a review of the FY17 audit process and accounts has concluded that appropriate and satisfactory accounting standards consistent with GAAP have been adopted and applied by the company in respect of all its financial reporting obligations;
- Approval by the Majority Lenders of the business plans for priority practice areas in both the UK business and Australian business; and
- Continuation of the weekly updates and ad hoc updates provided to the Majority Lenders by the CFO and CEO of the Australian and UK businesses on key liquidity and working capital drivers within the Group.

The Group believes the conditions precedent to drawdown will be satisfied.

5.3. Leasing

5.3.1. Accounting Policies

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at the inception of the lease and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if the right is not explicitly specified in the arrangement. The lease is classified at the inception date as a finance lease or an operating lease.

Finance Leases

A lease that transfers substantially all of the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease, at the inception date fair value of the leased property or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as finance costs in the Statement of Profit or Loss and Other Comprehensive Income. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely the Group will obtain ownership of the asset, or if not, over the shorter of the estimated useful life of the asset and the term of the lease.

The Group leases a certain number of its fixed assets under finance leases. The lease terms range from 3 to 10 years (30 June 2016: 3 to 10 years). The Group has options to purchase the equipment for a nominal amount at the end of the lease terms. The Group's obligations under finance leases are secured by the lessors' title to the leased assets. Interest rates underlying all obligations under finance leases are fixed at respective contract rates ranging from 3.96% to 9.25% (30 June 2016: 3.96% to 9.25%) per annum.

Notes to the Financial Statements

For the Year Ended 30 June 2017

Future minimum rentals payable under finance leases as at 30 June are, as follows:

	2017 \$'000			2016 \$'000		
	Minimum payments	Interest	Present value of payments	Minimum payments	Interest	Present value of payments
Within one year	2,053	(256)	1,797	3,808	(446)	3,362
One year or later and not later than five years	3,484	(189)	3,295	5,536	(444)	5,092
	5,537	(445)	5,092	9,344	(890)	8,454

Operating Leases

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the lease term. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease.

Commitments and contingencies are disclosed net of the amount of GST/VAT recoverable from, or payable to, the relevant taxation authority.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are, as follows:

	2017 \$'000	2016 \$'000
Within one year	25,665	33,731
One year or later and not later than five years	62,194	80,470
Greater than five years	49,717	52,632
	137,576	166,833

Notes to the Financial Statements

For the Year Ended 30 June 2017

5.4. Financial Risk Management

5.4.1. Accounting Policies

The Group's principal financial instruments comprise cash and cash equivalents, loans and receivables, trade payables and loans. The classification of financial instruments depends on the purpose for which the instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial Assets

Loans and receivables are non-interest bearing, non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The loans are initially recognised based on fair value plus directly attributable transactions costs and are subsequently stated at amortised cost using the effective interest rate method.

Financial assets are tested for impairment at each financial year end to establish whether there is any objective evidence of impairment.

For loans and receivables carried at amortised cost, impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of the loss reduces the carrying amount of the asset and is recognised in profit or loss. The impairment loss is reversed through profit or loss if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised.

Non-Derivative Financial Liabilities

Non-derivative financial liabilities include trade payables, other creditors and loans from third parties including loans from or other amounts due to director-related entities.

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt, net of directly attributable transaction costs less principal payments and amortisation using the effective interest rate method.

Non-interest bearing financial liabilities for deferred cash consideration on the acquisition of acquired firms is measured at amortised cost using the effective interest rate method. The implied interest expense is recognised in profit or loss.

Derivative Financial Instruments

The Group designates certain derivatives as either:

- hedges of fair value of recognised assets or liabilities or a firm commitment (fair value hedges); or
- hedges of highly probable forecast transactions (cash flow hedges).

The Group currently has cash flow hedges only, relating to interest rate risk management. At the inception of the transaction the relationship between hedging instruments and hedged items, as well as the Group's risk management objective and strategy for undertaking various hedge transactions are documented. It is the Group's policy to hedge a portion of its exposure in order to minimise the impact of an adverse change in interest rates that the Group is subject to.

Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in cash flow hedged items, are also documented.

Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in the hedge reserve which forms part of equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated Statement of Profit or Loss and Other Comprehensive Income.

Amounts accumulated in the hedge reserve in equity are transferred to profit or loss in the periods when the hedged item will affect profit or loss.

Notes to the Financial Statements

For the Year Ended 30 June 2017

5.4.2. Interest Rate Risk

The Group's exposure to interest rate risk and the effective interest rates of non-derivative financial assets and financial liabilities both recognised and unrecognised at the end of the reporting period are as follows:

	Variable interest rate		Fixed interest rate		Total	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
<i>Financial assets</i>						
Cash	33,303	82,494	-	-	33,303	82,494
Total financial assets	33,303	82,494	-	-	33,303	82,494
<i>Financial liabilities</i>						
Other current liabilities	1,815	7,490	-	-	1,815	7,490
Finance lease liability	-	-	5,092	8,454	5,092	8,454
Super senior facility	15,000	-	-	-	15,000	-
Bills of exchange	674,312	675,913	87,287	89,980	761,599	765,893
Total financial liabilities	691,127	683,403	92,379	98,434	783,506	781,837

Interest rate swap transactions are entered into by the Group to exchange variable interest payment obligations to fixed, to protect long-term borrowings from the risk of increasing interest rates. The Group uses swap contracts to maintain a designated proportion of fixed to floating debt.

The notional principal amounts of the swap contracts approximate 12% (30 June 2016: 12%) of the Group's outstanding borrowings on the bills of exchange at 30 June 2017. The net interest payments or receipt settlements of the swap contracts are matched to the maturity of the cash advance they are hedging. The net settlement amounts are brought to account as an adjustment to interest expense. At the end of the reporting period, the details of outstanding contracts, all of which are to receive floating/pay-fixed interest rate swaps, are as follows:

Maturity of notional amounts	Effective average fixed interest rate payable		Notional principal value	
	2017	2016	2017 \$'000	2016 \$'000
0 to 2 years	2.39%	2.06%	68,830	27,992
2 to 5 years	2.32%	2.47%	18,457	61,988
			87,287	89,980

Interest rate swaps are measured at fair value with gains and losses taken to the cash flow hedge reserve until such time as the profit or loss associated with the hedged risk is recognised in the consolidated Statement of Profit or Loss and Other Comprehensive Income.

Interest Rate Sensitivity

If interest rates were to increase/decrease by 100 basis points from rates used to determine fair values as at the end of the reporting period, assuming all other variables that might impact on fair value remain constant, then the impact on profit for the year and equity would be as follows:

	2017 \$'000	2016 \$'000
+/- 100 basis points:		
Impact on profit after tax	-	-
Impact on equity	1,168	2,121

As borrowings are measured at amortised cost and not fair value, any movement in interest rates does not impact the carrying value of those borrowings but would impact their related interest charges.

Notes to the Financial Statements

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5.4.3. Foreign Exchange Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to foreign currency risk relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's presentation currency), and the Group's net investments in foreign subsidiaries ("translational risk").

Translational risk relating to the acquisition of United Kingdom subsidiaries is partially hedged on an economic basis through borrowings of those United Kingdom subsidiaries also denominated in GBP, resulting in an overall reduction in the net assets that are translated. The remaining translation exposure is not hedged.

The Group has no significant exposures to currency risk other than the transactional and translational foreign currency exposures in relation to its UK subsidiaries. Any impacts on the balances relating to Slater and Gordon subsidiaries in the UK as a result of movements in the foreign exchange rate are recorded in other comprehensive income and accumulated in the foreign currency translation reserve which forms part of equity.

The Group has no other significant exposures to foreign exchange risk.

5.4.4. Credit Risk

Credit risk arises from the financial assets of the Group. The main exposure to credit risk in the Group is represented by receivables (debtors and disbursements) owing to the Group. The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of those assets as disclosed in the statement of financial position and notes to the financial statements.

The Group held cash and cash equivalents of \$33.3m at 30 June 2017 (30 June 2016: \$82.5m). The credit risk associated with cash and cash equivalents is considered as minimal as the cash and cash equivalents are held with reputable financial institutions in Australia and the UK.

Credit Risk – Slater Gordon Solutions (Motor Services)

Debts are almost exclusively due from insurance companies. The capitalisation of insurers is regulated by the Financial Conduct Authority in the UK. The insurance industry operates a policyholders' protection scheme to alleviate the impact of the failure of an insurance company.

Credit risk is therefore spread across major UK based motor insurers in proportion to their respective share of the market. No credit insurance is taken out given the regulated nature of these entities.

No interest is charged on the receivables balances, however late penalty payments become payable at certain dates under the Association of British Insurers' General Terms of Agreement. SGS does not hold any collateral over these balances nor has the legal right of offset with any amounts owed by SGS to the receivables counterparty.

Receivables

There is also credit risk associated with unrendered disbursements and trade receivables. Once client matters are billed, a significant portion of receivables related to the personal injuries business are considered low risk. This is because these receivables are collected directly from settlements paid by insurers into trust funds held on behalf of the Group's clients. For the non-personal injury law business, the Group is exposed to the credit risk associated with the client's ability to meet their obligations under the fee and retainer agreement. The Group minimises the concentration of this credit risk by undertaking transactions with a large number of clients.

Management of Credit Risk

The Group actively manages its credit risk by:

- assessing the capability of a client to meet its obligations under the fee and retainer agreement;
- periodically reviewing the reasons for bad debt write-offs in order to improve the future decision making process;
- maintaining an adequate provision against the future recovery of debtors and disbursements;
- including in practitioner's Key Performance Indicators ("KPI's") measurements in respect of debtor levels, recovery and investment in disbursements;
- providing ongoing training to staff in the management of their personal and practice group debtor portfolios; and
- where necessary, pursuing the recovery of debts owed to the Group through external mercantile agents and the courts.

Due to the nature of the "No Win No Fee" arrangements applicable to the majority of the legal matters managed by the Group an increase in the required processing time between initiation and settlement and an increase in the ageing of receivables, particularly disbursements, does not always increase the associated credit risk.

Management performs periodic assessment of the recoverability of receivables, and provisions are calculated based on historical write-offs of the receivables as well as any known circumstances relating to the matters in progress.

Notes to the Financial Statements

For the Year Ended 30 June 2017

5.4.5. Liquidity Risk

The Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of operating cash flows and committed available credit facilities. The Group actively reviews its funding position to ensure the available facilities are adequate to meet its current and anticipated needs.

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate borrowing facilities are maintained. Refer to the statement of cash flows and Note 3.3 Cash Flow Information, for further information on the historical cash flows. Further information in relation to bank facilities available and utilised are outlined in Note 5.2 Financing arrangements.

KPIs are set for practitioners relating to budgeted fee events, which are closely monitored by senior management.

Maturity Analysis

The table below represents the estimated and undiscounted contractual settlement terms for financial instruments and management's expectation for settlement of undiscounted maturities.

2017	< 12 Months	1-5 years	Total contractual cash flows	Carrying amount
	\$'000	\$'000	\$'000	\$'000
Non-derivative financial liabilities				
Payables	418,619	-	418,619	418,619
Borrowings	499,121	322,287	821,408	780,942
Other current liabilities	1,815	-	1,815	1,815
Financial liability maturities	919,555	322,287	1,241,842	1,201,376

2016

Non-derivative financial liabilities

Payables	463,570	510	464,080	464,080
Borrowings	43,736	841,326	885,062	764,780
Other current liabilities	7,490	-	7,490	7,490
Financial liability maturities	514,796	841,836	1,356,632	1,236,350

Refer to Note 5.4.2 for the maturity analysis of interest rate swaps.

5.4.6. Fair Value Risk

The fair value of financial assets and financial liabilities not measured at fair value approximates their carrying amounts as disclosed in the statement of financial position and notes to the financial statements except as set out in Note 4.7.2.

The Group measures its interest rate swaps at fair value. These fair values are based on level 2 fair value measurements, as defined in the fair value hierarchy in AASB 13 *Fair Value Measurement* with reference to market data which can be used to estimate future cash flows and discount them to present value. Management's aim is to use and source this data consistently from period to period.

Notes to the Financial Statements

For the Year Ended 30 June 2017

5.5. Contributed Equity

	2017 Shares	2017 \$'000	2016 Shares	2016 \$'000
Ordinary shares fully paid	347,245,601	1,119,235	352,377,933	1,116,573
VCR Shares	-	-	-	(525)
Balance at the end of the year	347,245,601	1,119,235	352,377,933	1,116,048
Movement in Ordinary Share Capital				
Balance at the beginning of the year	352,377,933	1,116,573	350,719,894	1,097,928
Issued during the year				
• EOP Share Buy Back	(5,132,332)	(9,232)	-	-
• Conversion of vested VCR shares	-	-	728,334	1,399
• Dividend Reinvestment Plan	-	-	786,949	2,270
• Equity Incentive Plan	-	-	142,756	401
• Transfer from share-based payment reserve	-	11,907	-	11,808
• Costs of share registry management	-	(13)	-	-
• Reversal of capital raising costs, net of tax	-	-	-	2,767
Balance at the end of the year	347,245,601	1,119,235	352,377,933	1,116,573
VCR Share Capital balance at the end of the year				
	-	-	-	(525)
Total Share Capital balance at the end of the year	347,245,601	1,119,235	352,377,933	1,116,048

Ordinary Shares

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

During the financial year ended 30 June 2017, the Company did not pay a dividend (30 June 2016: \$19,330,000).

As referred to in note 5.2.4, the Company has entered into a binding restructure support deed with its lenders. On implementation, subsequent to reporting date, the company will be separated into its Australian and UK Operations. Secured lenders will be issued with approximately 95% of the Australian Company's equity and 100% of the UK Company's equity. Existing shareholders will hold approximately 5% of the Australian Company immediately post the recapitalisation.

VCR Shares

As at 30 June 2017 there were nil VCR shares on issue (30 June 2016: nil VCR shares), with the Employee Ownership Plan (EOP) being discontinued during the current year due to it no longer fulfilling its intended purpose.

5.6. Share-Based Payment Arrangements

5.6.1. Accounting Policies

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The consolidated entity operates share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. In respect of share-based payments that are dependent on the satisfaction of performance conditions, the number of shares and options expected to vest is reviewed and adjusted at each reporting date. The amount recognised for services received as consideration for these equity instruments granted is adjusted to reflect the best estimate of the number of equity instruments that eventually vest.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Notes to the Financial Statements

For the Year Ended 30 June 2017

5.6.2. Employee Equity Incentive Plan (“EIP”)

For cash-settled share-based payment transactions, the liability needs to be remeasured at the end of each reporting period up to the date of settlement, with any changes in fair value recognised in the profit or loss. This requires a reassessment of the estimates used at the end of each reporting period.

The Group introduced a broad based equity incentive plan which was approved by the Shareholders at the 2014 Annual General Meeting.

(i). Exempt Share Save Scheme (“SSS”)

In 2015 the Group introduced an offer for Exempt Shares in the Equity Incentive Plan. The Plan gives the Group’s employees the opportunity to acquire shares in the Company. Each year, participating employees can make contributions from their pre-tax salary to acquire \$500 worth of shares. Such employee contributions are matched by the Group with an additional \$500 worth of shares being acquired for each participating employee. All employees who are Australian tax residents with at least 6 months service are entitled to participate in this Plan. Shares acquired under this Plan are subject to a holding period of 3 years. There was no issue of shares under this scheme in the current year ended 30 June 2017 (30 June 2016: 142,756 shares).

(ii). Share Incentive Plan (“SIP”)

The plan also incorporates a tax-approved scheme to employees in the UK. The Plan gives the Group’s employees the opportunity to acquire shares in the Company. Employees can make contributions from their pre-tax salary to acquire £375 (max) worth of shares. Such employee contributions are matched by the Group with a free share for every share purchased by the employee. All employees of the Group in the UK with at least 6 months service are entitled to participate in this Plan. Shares acquired under this plan are held in trust by MM&K Share Plan Trustee Ltd for a period of 5 years from the date of acquisition. There was no issue of shares under this plan in the current year ended 30 June 2017 (30 June 2016: nil shares).

(iii). Executive Equity Incentive Scheme (“EIS”)

The plan introduces an ownership-based compensation scheme for executives and senior employees.

Performance rights are granted for no consideration. Under the scheme each performance right carries an entitlement to one fully paid ordinary share in the Company subject to satisfaction of performance hurdles and/or continued employment at an exercise price of nil. These executives and senior employees are not entitled to vote or receive any dividends or attend the meeting of the shareholders during the vesting period. Performance rights may not be transferred, disposed or pledged as security. If the executive ceases to be employed by the Group within the vesting period, the rights will be forfeited, except in limited circumstances that are approved by the Board.

The performance hurdles are based on the following:

- Total Shareholder Return (“TSR”) Outperformance Hurdle – This performance hurdle is based on the Company’s TSR against the TSR of the constituent companies within the S&P/ASX200 (30 June 2016: S&P/ASX200) index (excluding resources) over the Measurement Period.
- Compound Annual Growth Rate in Earnings Per Share (“CAGR EPS”) Hurdle – This performance hurdle is based on the Company’s Compound Annual Growth Rate in Earnings Per Share over the Measurement Period.
- Compound Annual Growth Rate in Regional EBITDA (“CAGR EBITDA”) Hurdle – This performance hurdle is based on the designated Region’s Compound Annual Growth Rate in EBITDA over the Measurement Period.

Any performance rights not vested at the end of the performance period are forfeited.

FY17 EIS Offer

There was no offer or issue of performance rights under this scheme in the current year ended 30 June 2017

FY16 EIS Offer

An offer for 547,128 rights was made to Executives in November 2015, and was accepted by those invited to participate. The granting of the performance rights was, however, placed on hold and the plan for FY16 was subsequently cancelled. Under AASB 2, cancellation of performance rights results in an acceleration of vesting and therefore the full fair value of the performance rights of \$63,412 was recognised as a share based payment expense in profit or loss in the year ended 30 June 2016.

The fair value of services received in return for the performance rights granted is calculated by reference to the average of volume weighted average price of ordinary shares on each of 5, 10, 15 and 20 days immediately preceding the grant date and is measured at grant date. The weighted average fair values at grant date are determined using a fair valuation model which reflects the fact that vesting of the shares is dependent on meeting performance criteria based on TSR. The vesting of the shares is also subject to non-market conditions but these are not taken into account in the grant date fair value measurement of the services received. The assessed fair value of performance rights granted under this scheme as remuneration is allocated equally over the period from grant date to vesting date.

Notes to the Financial Statements

For the Year Ended 30 June 2017

5.6.2 Employee Equity Incentive Plan ("EIP") (continued)

The key terms and conditions related to the performance rights granted under this plan are as follows:

Grant date/employee entitled	Performance rights granted	Fair value of rights at Grant date	Vesting conditions*	Contractual life of performance rights
Group Executive Directors and Non-Directors in Australia (31 October 2014)	124,000	2.4643	50% subject to TSR Outperformance hurdle and 50% subject to CAGR EPS hurdle	3 years
Group Executives in the UK (12 December 2014)	44,000	2.4799	Same as above	3 years
Regional Executives in Australia (31 October 2014)	176,000	6.1608	50% subject to CAGR EBITDA hurdle and 50% subject to CAGR EPS hurdle	3 years
Regional Executives in the UK (12 December 2014)	152,000	6.1997	Same as above	3 years

* All performance rights include 3 years' service condition from grant date.

Total number of rights granted under both the FY16 and FY17 plan:

Grant date	Balance at beginning of the year	Granted during the year	Vested during the year	Forfeited during the year	Cancelled during the year	Balance at end of the year	Exercisable at end of the year
18 December 2015	-	547,128 ⁽¹⁾	-	-	(547,128)	-	-

⁽¹⁾ Performance rights were offered, accepted but not granted as the plan was subsequently cancelled.

Share-based payment expenses recognised in profit or loss are disclosed in Note 3.2.

5.6.3. GCFO Retention Plan

During the year, the Board implemented a one off retention plan for the Group Chief Financial Officer ("GCFO") in place of his participation in any other Group equity plan. The GCFO Retention Plan has been assessed by the Board following the vesting date of 30 June 2017. The hurdle was not achieved and all performance rights and options have now lapsed.

5.6.4. Employee Ownership Plan ("EOP")

The EOP was replaced by the EIP (refer 5.6.2 above) and was therefore currently in run-off with no new shares being issued under the EOP during the year ended 30 June 2017.

During the year, the Company cancelled the remaining 5,132,332 restricted ordinary shares under the EOP via a buy-back completed in April 2017. The buy-back price set in accordance with the EOP was applied against outstanding EOP loan amounts with a cash impact of \$238,404 to reimburse a limited number of employees who had made part pre-payments of EOP loans. No Key Management Personnel participated in the buy back. The EOP has been discontinued as it ceased to fulfil its intended purpose.

5.6.5. Share Based Payment Arrangements to Former Owners

Included in the terms of a number of purchase agreements entered into by the Group is an arrangement whereby the payment of cash consideration to and/or the retention of share-based consideration by the vendors of acquired entities is contingent upon the relevant vendors remaining with the Group for a defined period. If a vendor ceases to remain with the Group for the prescribed period, the vendor may forfeit its entitlement to payment of the cash consideration and/or its ability to retain its share-based consideration, at the discretion of the Group.

These arrangements are treated as a share-based payment transaction with the former owners. The transaction is measured at the fair value of the equity instruments granted and then recognised as an expense over the vesting period as agreed per each contract. The relevant expense is disclosed in the statement of profit or loss and other comprehensive income.

5.6.6. Share Based Payment Arrangements under the Syndicated Facility Agreement ("SFA")

As referred to in note 5.2.2, in May 2016, the terms of the multicurrency SFA were revised. Under the revised terms, the Group is required to pay a deferred restructure fee to its lenders on refinancing or maturity of the debt in the form of cash or warrants, at the irrevocable option of the lender. As reported to the market on 6 June 2016, 58.4% of lenders elected to be paid in cash whilst 41.6% have elected to be paid in warrants. The warrants provide for a placement of shares of up to 6.24% of any uplift in the market capitalisation of the Group from the effective date of the SFA amendment to such refinancing or maturity.

Notes to the Financial Statements

For the Year Ended 30 June 2017

5.6.6. Share Based Payment Arrangements under the Syndicated Facility Agreement ("SFA") (continued)

The deferred restructure fee was accounted for as a compound share-based payment within the scope of AASB 2, including a debt and equity component. The total value of the restructure fee was measured directly, with reference to the fair value of the debt establishment services, being \$17.8m. This was determined by proxy as the present value of the cash settlement option which amounted to \$20.2m, therefore the initial liability was recognised at \$17.8m and the residual equity component was initially measured at nil. The costs associated with this deferred restructure fee have been treated as transaction costs relating to the underlying borrowing and are being amortised to the income statement over the term of the facility.

Partial settlement of the deferred restructure fee liability occurred in June 2016 when 41.6% of the lenders elected to take the warrant payment option. This resulted in a reclassification from liability to share based payment reserve in equity of \$7.4m with no gain or loss recognised on reclassification. Despite not being due until at least 29 May 2018, the warrants vested immediately, as there are no conditions attached to the exercise of the warrants. This equity component is not remeasured after vesting and no gain or loss will be recognised when the share capital is issued on settlement.

The remaining cash payment restructure fee is treated as a cash-settled share-based payment and is remeasured to fair value at each reporting date up until settlement, with gains and losses recognised in profit or loss. Gains and losses on re-measurement of \$1.1m (30 June 2016: \$0.1m) are presented within finance costs for the year ended 30 June 2017. The liability recognised for the remaining cash component as at 30 June 2017 is \$11.7m (30 June 2016: \$10.4m) and is included in the net long term borrowings amounts as detailed in Note 5.2.3.

On 29 June 2017, as described in note 1.1, the Group has entered into a recapitalisation agreement which represents a full extinguishment of the SFA debt. The recapitalisation agreement is expected to come into effect subsequent to year end, at which time the SFA deferred restructure fee will be immediately expensed to the profit and loss and the warrants will be cancelled. The balance of the warrants in the Share-based Payment Reserve will be transferred to equity at the date of the recapitalisation agreement.

Note 6: Other Notes

6.1. Related Party Disclosures

6.1.1. Equity Interests in Related Parties

The table below lists the primary operating controlled entities of the Group. Individual controlled entities that are dormant have not been listed. All are owned 100% unless noted.

Country of Incorporation

Australia

Trilby Misso Lawyers Limited	Schultz Toomey O'Brien Pty Ltd
Slater & Gordon Lawyers NSW Pty Limited	All States Legal Co Pty Ltd
Conveyancing Works (Qld) Pty Limited	SG NSW Pty Ltd

United Kingdom

SGL UK

Walker Smith Way Limited	4 Legal Solutions Limited
WSW Limited	Slater & Gordon (UK) LLP
Slater & Gordon (UK) 1 Limited	Adroit Financial Planning Limited
4 Legal Limited	

SGS

iSaaS Technology Limited	React Medical Management Limited
Compass Costs Consultants Ltd	Medicalaw Limited
Intelligent Claims Management Limited	Abstract Legal Holdings Limited
Mobile Doctors Group Limited	Accident Advice Helpline Direct Limited
Medici Legal Limited	Legal Facilities & Management Services Limited
Mobile Doctors Solutions Limited	Access to Compensation Limited
Mobile Doctors Limited	Liberty Protect Limited
React & Recover Medical Group Limited	Slater Gordon Solutions Legal Services Limited
Recover Healthcare Limited	SGS Business Process Services (UK) Limited
React Medical Reporting Limited	

Malta

Overland Limited	Overland Malta (Trading) Limited
Overland Health Limited	

Notes to the Financial Statements

For the Year Ended 30 June 2017

Crusader Assistance Group Holdings Limited along with its subsidiaries Crusader Uninsured Loss Recovery Service Limited and Crusader Connect Limited was disposed of, and Quindell ACH Limited was dissolved during the current year.

6.1.2. Deed of Cross Guarantee

All Australian segment entities are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Corporations Instrument 2016/785 dated 17 December 2016 issued by the Australian Securities and Investments Commission. Please refer to the Slater and Gordon Australia segment in Note 2 for further information.

6.1.3. Key Management Personnel Compensations

	2017 \$	2016 \$
Compensation by category		
Short-term employment benefits	2,924,235	4,056,725
Post-employment benefits	177,750	213,254
Other long term employment benefits	43,502	60,741
Share based payments	879,381	73,548
Other benefits	949,550	499,331
	4,974,418	4,903,599

6.1.4. Transactions with Other Related Parties

The shareholdings of related parties and remuneration of KMP are disclosed in the Directors' Report.

Outstanding receivables, if any, between related parties are included in Note 4.2. Outstanding payables, if any, are included in Note 4.6.

6.2. Parent Entity Disclosures

As at, and throughout, the financial year ended 30 June 2017 the parent entity of the Group was Slater and Gordon Limited. Investments in subsidiary are accounted for at cost, less any impairment recognised since acquisition.

	2017 \$'000	2016 \$'000
Results of parent entity		
Loss for the year	(174,247)	(1,133,848)
Other comprehensive loss	619	(334)
Total comprehensive loss for the year	(173,628)	(1,134,182)

There has been a recharge by the parent entity of management and associated services and interest expense to the subsidiary entities up to 31 May 2016.

Financial position for the parent entity at year end

Current assets	127,393	134,306
Total assets	283,756	412,799
Current liabilities	197,382	91,857
Total liabilities	335,788	290,813
Total equity of the parent company comprising of		
Contributed equity	1,119,180	1,115,993
Reserves	31,745	34,705
Retained profits	(1,202,958)	(1,028,712)
Total Equity	(52,033)	121,986

Notes to the Financial Statements

For the Year Ended 30 June 2017

6.3. Auditor's Remuneration

The auditor of the Group for the year ended 30 June 2017 is Ernst & Young (30 June 2016: Ernst & Young).

	2017 \$	2016 \$
Audit Services		
Ernst & Young		
Audit and review of financial reports	767,000	700,000
Other regulatory services	100,450	-
Overseas Ernst & Young firms		
Audit and review of financial reports	1,689,076	2,797,090
Other regulatory audit services	42,017	57,446
Other Auditor		
Audit and review of financial reports	-	218,553
Other regulatory audit services	-	51,531
	2,598,543	3,824,620
Other Services		
Ernst & Young		
Other – consulting services	19,923	257,000
Other Auditor		
Other – consulting services	-	282,033
Due diligence investigations	-	16,125
	2,618,466	4,379,778

6.4. Accounting Standards issued but not yet effective at 30 June 2017

At the date of authorisation of the financial statements, the Standards and Interpretations that were issued but not yet effective, which have not been early adopted are listed below. A formal and detailed assessment of the expected impacts of these standards and interpretations is currently underway with the initial findings for each new accounting standard noted in the relevant sections below. The Group early adopted AASB 15 *Revenue from Contracts with Customers* in the prior year.

Reference	Title	Application date of Standard	Application date for Group
AASB 9	<i>Financial Instruments</i>	1 January 2018	1 July 2018

AASB 9 as issued replaces AASB 139 and includes a logical model for classification, measurement and derecognition of financial assets, a single, forward-looking "expected loss" impairment model and a substantially reformed approach to hedge accounting. The main changes to the classification and measurement of financial assets and liabilities are:

- Financial assets that are debt instruments will be classified based on (i) the objective of the entity's business model for managing the financial assets, and (ii) the characteristics of the contractual cash flows.
- Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
- Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
- Where the fair value option is used for financial liabilities, the change attributable to changes in credit risk is presented in other comprehensive income, and the remaining change is presented in profit or loss.

An assessment of the impact of AASB 9 on the position of the Group is ongoing, however there are no expected material changes in the classification of financial assets and liabilities. Fair value changes resulting from credit risk are not expected to have a significant impact on future results. The introduction of the expected loss impairment model for determining credit provisions has not yet been determined. There is no change anticipated in relation to hedge accounting.

Notes to the Financial Statements

For the Year Ended 30 June 2017

6.4 Accounting Standards issued but not yet effective at 30 June 2017 (continued)

Reference	Title	Application date of Standard	Application date for Group
AASB 2016-3	<i>Amendments to Australian Accounting Standards – Clarifications to AASB 15</i>	1 January 2018	1 July 2018

AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15 amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence and provides further practical expedients on transition to AASB 15, none of which is expected to affect the Group's revenue recognition process.

Reference	Title	Application date of Standard	Application date for Group
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>	1 January 2019	1 July 2019

The interpretation clarifies the application of the recognition and measurement criteria in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatment by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group has not yet assessed the impact of IFRIC 23.

Reference	Title	Application date of Standard	Application date for Group
AASB 16	<i>Leases</i>	1 January 2019	1 July 2019

The key features of AASB 16 are as follows:

Lessee Accounting

- Lessees are required to recognise assets and liabilities for all leases on balance sheet with a term of more than 12 months, unless the underlying asset is of low value.
- Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.
- AASB 16 contains disclosure requirements for lessees.

Lessor Accounting

- AASB 16 substantially carries forward the lessor accounting requirements in the current lease standard AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.
- AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.

An assessment of the impact of AASB 16 on the financial performance and position of the Group is ongoing with a view to informing the transition decisions to be made before adoption of the new standard. It is not yet possible to make a reliable estimate of the impact of the standard on the Consolidated Financial Statements. Although the impact is yet to be quantified, given that at 30 June 17 the Group is lessee to a number of operating leases, in particular in relation to properties, it is expected that the adoption of the standard will result in a material impact on the statement of financial position.

Currently, the Group does not expect to early adopt AASB 16.

Notes to the Financial Statements

For the Year Ended 30 June 2017

Note 7: Unrecognised Items

7.1. Guarantees

The Group has entered into lease rental guarantees and performance guarantees with a face value of \$12.1m (30 June 2016: \$12.5m).

7.2. Contingent Consideration

The Group may be required to pay contingent consideration in relation to acquisitions that have been undertaken. Further details are included in Note 4.7.

7.3. Other Commitments and Contingencies

The Group has an agreement with third party disbursement funder, Equal Access Funding Proprietary Limited ('the funder'), who funds disbursements in respect of individual matters and is reimbursed out of any settlement proceeds on the matter. The Group has provided a financial guarantee to the funder for the repayment of clients' obligations.

The total amount funded by the funder to the Group's clients at 30 June 2017 is \$16m (30 June 2016: \$19m). The maximum exposure of the Group at 30 June 2017 is \$16m (30 June 2016: \$19m) if the disbursements on client matters are not recovered from any other party.

7.4. Contingent Asset

7.4.1. Claims against Watchstone plc (Watchstone – formerly Quindell plc)

On 19 September 2016, the Group notified Watchstone of various claims it intends to bring against Watchstone arising from its acquisition of Watchstone's Professional Services Division (PSD) in May 2015. On 29 November 2016 the Group obtained a positive merits based opinion of its claims from an independent barrister, in accordance with the provisions of the Share Purchase Agreement (SPA) between the Group and Watchstone. Having met this threshold requirement, under the SPA provisions, the escrow amount of £50m will not be released to Watchstone until such time as the claim made against Watchstone is resolved (through proceedings or settlement). On 14 June 2017 the Company filed and served a claim in the High Court against Watchstone Group Plc for approximately £600m. The claim is based upon serious allegations against Watchstone and its then senior management, including fraud, concerning the purchase by Slater and Gordon of Watchstone's Professional Services Division in 2015.

7.5. Contingent Liabilities

7.5.1. Class Action Proceedings

On 12 October 2016 legal proceedings were filed against the Company in the Federal Court of Australia on behalf of an open class of Slater and Gordon shareholders. The class claimants are represented by Maurice Blackburn.

The class proceeding asserts that the Company engaged in misleading and deceptive conduct and breached its continuous disclosure obligations during the period from 30 March 2015 to 24 February 2016. The class claimants seek orders that the Company pay statutory compensation or compensate them for damage suffered by them which resulted from the Company's contraventions or refund all monies paid by the Applicant and Group Members pursuant to the Watchstone PSD entitlement offer, plus interest and costs.

On 20 June 2017 the Company announced that legal proceedings were filed against it by Babscay Pty Ltd on behalf of persons who acquired an interest in shares of the Company between 24 August 2012 and 19 November 2015. The statement of claim asserts that the Company's financial statements for the financial years ended 30 June 2013, 2014 and 2015 contained false and/or misleading statements. The allegations focus on the way in which the Company recognised revenue and, in financial year 2015, accounted for acquisitions in accordance with Australian Accounting Standards.

On 11 July 2017, the Company announced it had entered into an in principle conditional agreement to settle the class action proceeding through a mediation process facilitated by the Federal Court. The settlement pursuant to this agreement will resolve any and all potential shareholder claims against the Company and its directors and officers. The settlement remains subject to court, lender and shareholder approval and further details are available in note 8.1 Subsequent Events. An amount relating to the company's contribution to the in principle settlement has been recognised as a provision at 30 June 2017.

Notes to the Financial Statements

For the Year Ended 30 June 2017

Note 8: Subsequent Events

8.1. Shareholder Class Action

As outlined in note 7.5 above, during the year ended 30 June 2017, the Company announced two shareholder class action proceedings had been filed against the Company. The Company also received notification of one other potential class action proceeding by former and existing shareholders.

On 11 July 2017, the Company announced it had reached an in principle conditional agreement to settle the class action proceeding brought on behalf of Mr Matthew Hall through a mediation process facilitated by the Federal Court. The agreement will resolve any and all potential shareholder claims against the Company and its directors and officers. The settlement of all other shareholder claims will be effected by a shareholder creditors' scheme of arrangement ("Shareholder Creditor Scheme"). The settlement is subject to completion of formal legal documentation and will also require approval by the Federal Court of the settlement terms. It is also subject to shareholder and lender approval via vote at a meeting to be held in November 2017.

The terms include the following:

- an agreed settlement amount relating to all Shareholder Creditor claims of \$32.5m ("Shareholder Creditor Scheme Fund") comprising proceeds from responsive directors and officers liability insurance policies held by the Company will be made available by agreement in principle reached with the Company's insurers;
- \$4m will be made available by the Company's Lenders to fund a further payment by the Company for the benefit of the Hall Proceeding claimants;
- releases will be given in favour of those insurers;
- various other provisions releasing, resolving and insulating the Company and its current and former officers from the impact of claims by Shareholder Creditors in connection with the Company's affairs;
- payment of approved legal costs incurred by the Hall Proceeding claimants out of the Shareholder Creditor Scheme Fund;
- the Hall Proceeding will be dismissed with no orders as to costs; and
- the settlement is without admission of liability by the Company.

8.2. Separation of Businesses

On 31 August 2017, the Group entered into a binding restructure support deed with its Senior Lenders in relation to the recapitalisation of the Group (refer to note 5.2.4). The recapitalisation is intended to provide the Group with a sustainable level of debt and a stable platform for its future operations, and additional liquidity support for its continued operation prior to the implementation of the recapitalisation

On implementation of the recapitalisation, all UK operations and UK subsidiaries (including Slater & Gordon (UK) 1 Ltd ("S&G UK")) will be separated from the Australian parent company (Slater and Gordon Limited) and transferred to a new UK holding company ("UK HoldCo"). UK HoldCo will be wholly owned by the Senior Lenders. Following separation, existing shareholders of the Company will cease to have any interest in the Company's existing UK operations or UK subsidiaries.

The Company believes the separation of the UK operations provides the best option to enable both the Australian and UK operations to succeed in their own right.

Notes to the Financial Statements

For the Year Ended 30 June 2017

Note 9: Business Combinations

9.1. Accounting Policies

Business combinations are accounted for by applying the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition-date fair value, and the amount of any non-controlling interests in the acquiree. Deferred consideration payable is measured at present value. Any contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Contingent consideration classified as a liability that is a financial instrument and within the scope of AASB 139 is measured at fair value with changes in fair value recognised in the statement of profit or loss and other comprehensive income. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or the proportionate share of the acquiree identifiable net assets. Acquisition related costs are expensed as incurred.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss as a gain from bargain purchase.

In conjunction with the business combination transaction there may be a transfer of assets between controlled entities as part of restructuring the acquired business. The parent accounts for such transfers through reallocation of the cost of the investments in its statement of financial position.

Critical Accounting Estimates and Judgements

The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method ("MEEM") whilst the fair value of trademarks acquired in a business combination is based on a relief from royalties approach. These methods require estimates by management of future income streams, applicable royalty rates and discount rates

Provisional accounting is applied by the Group to account for business combinations when the initial accounting is incomplete at the end of the reporting period. An entity has 12 months to finalise its provisional accounting. By its nature provisional accounting involves estimates and judgements based on the information available to the Group at the end of the reporting period, while it continues to seek information about facts and circumstances that existed as of the acquisition date.

9.2. Current Period Business Combinations

There were no business combinations during the year ended 30 June 2017.

9.3. Prior Period Business Combinations

There were no business combinations during the year ended 30 June 2016.

Slater and Gordon Limited

Directors' Declaration

The directors declare that the financial statements and notes set out on pages 37 to 80 and the directors' report are in accordance with the *Corporations Act 2001* and:

- (a). Comply with Accounting Standards and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements;
- (b). As stated in Note 1, the financial statements also comply with International Financial Reporting Standards;
- (c). Give a true and fair view of the financial position of the consolidated entity as at 30 June 2017 and of its performance as represented by the results of its operations, changes in equity and its cash flows, for the year ended on that date.

In the directors' opinion there are reasonable grounds to believe that:

- Slater and Gordon Limited will be able to pay its debts as and when they become due and payable.
- the Company and the group entities identified in Note 6.1 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Corporations Instrument 2016/785.

This declaration has been made after receiving the declarations required to be made by the chief executive officer and chief financial officer to the directors in accordance with sections 295A of the *Corporations Act 2001* for the financial year ended 30 June 2017.

This declaration is made in accordance with a resolution of the directors.



John Skippen

Chair

Melbourne

31 August 2017

Independent Auditor's Report to the Members of Slater and Gordon Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Slater and Gordon Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to Note 1.1 in the financial report which indicates that the consolidated entity incurred a net loss after tax of \$546.8 million, negative net cash flow from operating activities of \$39.1 million and, as at 30 June 2017 the Group's total liabilities exceeded its total assets by \$248.8 million. The note also details that the Group's Syndicated Facility Agreement is fully drawn, with \$450.2 million of the drawings repayable in May 2018 in accordance with the agreement.

Note 1.1 describes the conditions that raise uncertainty regarding the consolidated entity's ability to continue as a going concern. It details uncertainties relating to cash flows which will not be sufficient to repay a portion of the Group's consolidated entity's borrowing facilities of \$450.2 million due in May 2018, or earlier, if that was required. It also details that the Group has reached agreement with its lenders to provide additional liquidity support required for it to remain able to pay debts as and when they fall due through to the proposed date of the recapitalisation of the Group and also details the consolidated entity's reliance on the recapitalisation and the ongoing support of its lenders to continue as a going concern.

Note 1.1 references Note 5.2 and Note 8 that detail the recapitalisation agreement entered into by the Group with its lenders and the settlement of shareholder class actions that both remain subject to conditions precedent and approvals as detailed in Note 5.2 and Note 8.

These conditions along with other matters as set forth in Note 1.1 indicate the existence of material uncertainties that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, whether the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Carrying Value of Goodwill and Other Indefinite Life Intangible Assets and Associated Impairment

Why significant

The Group is required to annually test the carrying value of goodwill and other intangible assets with an indefinite life for impairment.

Disclosures about goodwill and intangible assets are included in Note 4.1 to the financial report.

How our audit addressed the key audit matter

Our procedures included the following:

- ▶ Considered whether the methodology used in preparing the value-in-use model and fair value less costs of disposals calculations used by the Group to test for impairment meets the requirements of Australian Accounting Standard AASB 136 *Impairment of Assets*.

Why significant

As disclosed in Note 4.1.3 and Note 4.1.4, the Directors' assessment of goodwill and other identifiable intangible assets for impairment, involves critical accounting estimates and assumptions, specifically concerning future discounted cash flows.

These estimates and assumptions are impacted by future performance, market and economic conditions in both Australia and the United Kingdom.

An impairment charge of \$361.2 million was recorded against these assets in the year ended 30 June 2017.

Given the estimates and assumptions involved in the impairment test, the recent performance of the Group and the magnitude of impairment charges taken in the past, this was considered to be a key audit matter.

How our audit addressed the key audit matter

- ▶ Tested whether the impairment models used were mathematically accurate.
- ▶ Assessed whether the cash flows used in the impairment models accurately reflected budgets approved by the Board at 31 December 2016 and prepared by the Group and submitted to representatives of its lenders and the forecast financial information provided by the Group to its lenders to support the Recapitalisation Agreement at 30 June 2017.
- ▶ Considered the historical reliability of the Group's cash flow forecasting process.
- ▶ Considered the impact of a range of assumption sensitivities on the impairment models.
- ▶ Assessed the external inputs and assumptions within the cash flow forecasting models by comparing them to assumptions and estimates used elsewhere in the preparation of the financial report and benchmarked them against market observable external data.
- ▶ Considered the adequacy of the financial report disclosures contained in Note 4.1, Note 4.1.3 and Note 4.1.4, in particular those regarding assumptions.
- ▶ As impairment testing relies upon business valuation principles, we involved our valuation specialists to assist in the work outlined above where we considered such expertise was required.

Work in Progress (WIP) and Associated Revenue Recognition

Why significant

WIP is significant to the Group, comprising 45% of total assets and movements are included in revenue recognised for the year. The Group's disclosures regarding WIP and the associated revenue recognised are included in Note 3.1 and Note 4.3 to the financial report.

How our audit addressed the key audit matter

Our procedures included the following:

- ▶ Considered whether the Groups' accounting policy for complied with Australian Accounting Standards, in particular AASB15 *Revenue*.
- ▶ Obtained details of WIP recognised for each revenue stream at balance date and applied statistical sampling techniques to select individual legal matters ("cases") for testing.

Why significant

The Directors' determination of the carrying value of WIP and its associated revenue streams involves significant judgement, data analysis and complexity and accordingly has been considered a key audit matter

The Group considers each revenue stream in isolation and makes judgements in relation to:

- ▶ The identification of a contract
- ▶ The identification of the performance obligations as part or within a contract
- ▶ Determination of the transaction price, particularly for revenue streams accounted under a "no win no fee" basis
- ▶ Allocation of the transaction price
- ▶ Recognition of revenue when a performance obligation is satisfied

To validate the judgements made in relation to WIP, the Group develops a series of data models based on historical information over a two year period. Data included in these models provides a methodological approach to determine the valuation status.

Accordingly, this has been considered a key audit matter.

How our audit addressed the key audit matter

- ▶ Obtained evidence to support the case status that had been allocated to each case file by the responsible professional. Evidence obtained was assessed against the coding guidelines of the Group.
- ▶ Assessed the data that supports the judgements noted that were included in the data models.
- ▶ Assessed the movements in the cases profile including changes in status and ageing.
- ▶ Involved our data quality specialists to assess the accuracy and integrity of both the data (historical information over a two year period) and the workings of the models. This was completed using data analytic procedures to re-perform, re-calculate and validate key calculations.
- ▶ Considered the adequacy of the financial report disclosures contained in Note 3.1 and Note 4.3, in particular those regarding assumptions to which the outcome of the data models is most sensitive.

Recoverability of Trade Receivables and Disbursements and Associated Provisioning

Why significant

Trade receivables and disbursements are significant to the Group, comprising 43% of total assets, net of provisions for impairment.

The recoverability of trade receivables and disbursements is a highly subjective area due to the nature of the legal case profile and the level of judgement applied by the Group in determining provisions. Accordingly, this has been considered a key audit matter

How our audit addressed the key audit matter

Our procedures included the following:

- ▶ We assessed the assumptions used to calculate the trade receivables and disbursements provisions for impairment.
- ▶ We performed analyses of ageing of receivables and disbursements, collection history, future collections strategies and assessment of significant overdue individual trade receivables and disbursements.

Litigation Matters and Subsequent Events

Why significant	How our audit addressed the key audit matter
The Group is and has been subject to a number of Shareholder Class Actions and other legal proceedings. These matters are detailed in Note 7.4, Note 7.5 and Note 8.1. These matters are subject to a number of pending approvals and the settlement of the Class Action matters are a condition precedent of the proposed debt restructure as detailed in Note 8.1. Accordingly, our consideration of these matters and the related disclosures was considered a key audit matter.	Our procedures included the following: ▶ Obtained all proposed settlement and claim documentation in relation to the Class Action and other legal proceedings. ▶ Met with the Group's internal General Counsel in relation to the status of the legal proceedings. ▶ Considered the conditions noted in Note 7.4, Note 7.5 and Note 8.1 for factual accuracy. Considered the adequacy of the financial report disclosures contained in Note 7.4, Note 7.5 and Note 8.1.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2017 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

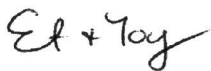
Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 18 to 35 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Slater and Gordon Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Ernst & Young



Christopher George
Partner
Melbourne
31 August 2017

Additional ASX Information

In accordance with the Australian Stock Exchange Limited Listing Rules, the Directors provide the following information as at 31 August 2017.

- (a). Distribution of shareholders and option holders.

Holding	Number of Ordinary Shareholders	Performance Rights
1 - 1,000	4,011	-
1,001 - 5,000	6,288	14
5,001 - 10,000	2,651	17
10,001 - 100,000	3,695	19
100,001 - Over	513	-
	17,158	50

There are 10,950 shareholders holding less than a marketable parcel of 6,173 shares each (i.e. less than \$500 per parcel of shares).

- (b). Twenty largest shareholders

Shareholder	Number of Shares held	% Held
1 CITICORP NOMINEES PTY LIMITED	7,138,314	2.06
2 MR ANDREW GRECH	6,383,238	1.84
3 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	5,681,219	1.64
4 MR KEN FOWLIE	5,096,221	1.47
5 JBWERE (NZ) NOMINEES LIMITED <43941 A/C>	4,297,564	1.24
6 MR HAYDEN STEPHENS	4,255,115	1.23
7 J P MORGAN NOMINEES AUSTRALIA LIMITED	4,239,548	1.22
8 COMSEC NOMINEES PTY LIMITED	3,937,049	1.13
9 BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	3,684,700	1.06
10 MR PENG REN	2,800,000	0.81
11 BNP PARIBAS NOMS PTY LTD <DRP>	2,314,181	0.67
12 MR JAKE JOHN RUTTEN + MRS DINAH ANN RUTTEN <JAKE RUTTEN SUPER A/C>	1,610,000	0.46
13 MR DANIEL WONG	1,590,050	0.46
14 MR MING CHENG + MS LEI SONG	1,480,000	0.43
15 DEANSGATE 123 LLP	1,411,864	0.41
16 MR PETER JOHN KLASSEN	1,318,000	0.38
17 THEOFAM NOMINEES PTY LTD <THEOFAM A/C>	1,250,000	0.36
18 NATIONAL NOMINEES LIMITED <DB A/C>	1,195,024	0.34
19 MR HAN ZHONG	1,125,111	0.32
20 MR HARRY HATCH	1,118,888	0.32
	61,926,086	17.85

- (c). Substantial Shareholders

- (d). A substantial shareholder is one who has a relevant interest in 5 per cent or more of the total issued shares in the Company. Following are the substantial shareholders in the Company based on notifications provided to the Company under the *Corporations Act 2001*:

Shareholder	Number	Ordinary Shares % *
None	-	-

* Percentage of shares held based on total issued capital of the Company at the time a substantial shareholder notice was provided to the Company.

- (e). Voting Rights

All issued ordinary shares carry one vote per share.

VCR shares and performance rights do not carry any voting rights.

Corporate Directory

Directors

John Skippen, Chair
Andrew Grech
James M. Millar
Thomas Brown

Company Secretary

Bryce Houghton

Registered Office and Corporate Office

Level 12
485 La Trobe Street
Melbourne Victoria 3000
Telephone: (03) 9602 6888
Facsimile: (03) 9600 0290

Company Website

www.slatergordon.com.au

Company Numbers

ACN 097 297 400
ABN 93 097 297 400

Auditors

Ernst & Young
8 Exhibition Street
Melbourne Victoria 3000

Bankers

Westpac Banking Corporation
Level 7
150 Collins Street
Melbourne Victoria 3000

National Australia Bank
Level 30
500 Bourke Street
Melbourne Victoria 3000

Solicitors

Arnold Bloch Leibler
Level 21
333 Collins Street
Melbourne Victoria 3000

Securities Exchange Listing

Slater and Gordon Limited
shares are listed on the
Australian Securities
Exchange. The Home
Exchange is Melbourne.
ASX Code: SGH

Share/Security Registers

The Registrar

Computershare Investor
Services Pty Ltd
Yarra Falls
452 Johnston Street
Abbotsford Victoria 3067

GPO Box 2975
Melbourne Victoria 3001

Telephone

Toll Free 1300 850 505
(Australia)
+61 3 9415 4000
(Overseas)

Investor Centre Website:

www.computershare.com.au

Email:

web.queries@computershare.com.au

ANNEXURE F - FORM 507 REPORT FOR THE SCHEME COMPANY



Form 507

Corporations Act 2001

421A(1) & (2), 429(2)(b) & (c), 475(1) & (7), 497(4) & (6)

Report as to affairs

Related forms:

507A Statement verifying report under s475(1)

911 Verification or certification of a document

If there is insufficient space in any section of the form, you may photocopy the relevant page(s) and submit as part of this lodgement

Company details

Company name

SLATER AND GORDON LIMITED

ACN/ABN

097 297 400

Lodgement details

An image of this form will be available as part of the public register.

Who should ASIC contact if there is a query about this form?

Name (Ref:)

ASIC registered agent number (if applicable)

1987

Company/entity name

ARNOLD BLOCH LEIBLER

Telephone number

(03) 9229 9999

Postal address or DX Address

**Level 21, 333 Collins Street
Melbourne VIC 3000**

Email address (optional)

Directions

This report is to be made as at the following dates:

- (a) where prepared by the managing controller under s421A(1) of the *Corporations Act 2001* (Corporations Act) - a day not later than 30 days before the day when it is prepared
- (b) where submitted to a controller under s429(2) - the control day, or
- (c) where submitted to a liquidator or to a provisional liquidator under s475(1) - the date of the winding-up order or, if the liquidator specifies an earlier date, that date.

This report is to be submitted by, and verified by a statement in writing made by, the following person, in accordance with Form 507A - where the statement is made out for the purposes of s475(1) - a person referred to in that subsection.

Regulation 5.2.02 requires the copy of this report that is lodged with the Australian Securities and Investments Commission to be certified in writing as a true copy of the original report.

- (a) for a copy lodged for the purposes of s429(2)(c) - by the controller of property of the corporation; or
- (b) for a copy lodged for the purposes of s475(7) - by the liquidator/provisional liquidator of the company.

NOTE: Form 911 is prescribed for this purpose.

1 Reason for report

To be completed by the external administrator, or controller, or scheme administrator or person who must lodge this form with ASIC

	ASIC internal form code
☐ Managing controller of property - s421A(1)	
If a receiver and manager	
Date of appointment	507G
//	
If a person who is in possession, or has control of the property for the purpose of enforcing a security interest	507H
Date when person took control	
//	
☐ Appointment of controller - s429(2)(b)	
Under s429(c)(i) a notice setting out any comments relating to the report, or a statement that no comment is made, should accompany the report. A Form 911 Verification or certification of a document should also be lodged.	
Date of receipt of report	507F
//	
☐ Appointment of liquidator/provisional liquidator by the Court - s475(1)	
A Form 911 Verification or certification of a document should also be lodged.	
Date of receipt of report	507C
//	
☐ Appointment of liquidator - creditors' voluntary winding-up - s497(4)	507D
Date report was received by liquidator	
//	

2 Assets and liabilities

Date specified under the relevant section as the date of report (see Directions on page 1)

30/09/17

2.1 Assets not specifically subject to security interests	Valuation (for each entry show whether cost or net book amount) \$	Estimated Realisable Values \$
(a) interest in land as detailed in schedule A	Nil	Nil
(b) sundry debtors as detailed in schedule B	471,270,529 (Net book value)	471,270,529
(c) cash on hand	12,221 (cost)	12,221
(d) cash at bank	21,883,732 (cost)	21,883,732
(e) stock as detailed in annexed inventory	Nil	Nil
(f) work in progress as detailed in annexed inventory	520,803,124	520,803,124
(g) plant and equipment as detailed in inventory	22,407,533 (Net book value)	22,407,533
(h) other assets as detailed in schedule C	72,910,438 (Net book value)	72,910,438
Sub Total	1,109,287,577	1,109,287,577

2 Continued...Assets and liabilities

		Valuation (for each entry show whether cost or net book amount) \$	Estimated Realisable Values \$
2.2	Assets subject to specific security interests, as specified in schedule D	4,053,802	4,053,802
	Less amounts owing as detailed in schedule D	(4,677,650)	(4,677,650)
	Total Assets	(623,849)	(623,849)
Total Estimated Realisable Values		1,108,663,729	1,108,663,729
2.3	Less payable in advance of second creditor(s) Amounts owing for employee entitlements as detailed in schedule E	(30,224,139)	
2.4	Less amounts owing and secured by debenture or circulating security interest over assets	(807,330,055)	
2.5	Less preferential claims ranking behind secured creditors as detailed in schedule F	-	
2.6	Balances owing to partly secured creditors as detailed in schedule G	nil	
	Total Claims	(\$837,554,194)	
	Security Held	271,109,535	
2.7	Creditors (unsecured) as detailed in schedule H	(562,446,780)	
	Amount claimed	(\$562,446,780)	
2.8	Contingent assets Estimated to produce as detailed in schedule I	(\$83,333,333)	
2.9	Contingent liabilities Estimated to rank as detailed in schedule J	(\$32,500,000)	
	☒ Estimated deficiency or		
	☐ Estimated surplus		
	☐ Subject to costs of administration or		
	☐ Subject to costs of liquidation		
	Share capital	\$ 1,119,235 (Ordinary Shares)	
	Issued	\$ 1,119,235	
	Paid Up	\$ 1,119,235	

2 Continued...Assets and liabilities

SCHEDULES

If this report is made for the purposes of subsection 497(4), Schedules A, B, C are to show the method and manner of arriving at the valuation of the assets.

SCHEDULE A - INTERESTS IN LAND

Address and description of property	(1) Valuation	Estimated realisable value	Valuation for rating purposes	Particulars of tenancy	Where possession of deeds may be obtained	Short particulars of title
Nil	\$	\$	\$			

SCHEDULE B - SUNDRY DEBTORS (INCLUDING LOAN DEBTORS)

Name and address of debtor	Amount owing	Amount realisable	Deficiency	Particulars of security (if any) held	Explanation of deficiency
Trade Receivables	\$ 211,739,836	\$ 142,405,537	\$ (69,334,299)		Regular doubtful debts provision
Disbursements	420,989,591	328,864,992	(92,124,599)		Regular provision for non-recovery based on historical recoverability
	632,729,427	471,270,529			

SCHEDULE C - OTHER ASSETS

Description of deposit or investment	Amount	
	Cost	Realisable
Tax Assets	34,781,307	34,781,307
Prepayments	14,257,846	14,257,846
Intangibles – Software development	12,544,266	12,544,266
Other Assets	11,327,019	11,327,019
	72,910,438	

2 Continued...Assets and liabilities

SCHEDULES

If this report is made for the purposes of subsection 497(4), Schedule D is to show the method and manner of arriving at the valuation of the assets.

SCHEDULE D - ASSETS SUBJECT TO SPECIFIC SECURITY INTERESTS							
Description of asset	Date security interest given	Description of security interest	Holder of security interest	Terms of repayment	(1) Valuation	Estimated realisable value	Amount owing under security interest
Refer to Annexure A1 and Annexure A2					\$	\$ 4,053,802	\$ 4,677,650

SCHEDULE E - CLAIMS BY EMPLOYEES				
Employee's name and address	Wages	Holiday pay	Long service leave	Estimated liability
Statutory Employee Benefits	\$	\$ 8,723,677	\$ 12,992,288	\$ 21,715,965
Superannuation / Pension Scheme				3,073,322
Payroll Liabilities	5,434,852			5,434,852
				30,224,139

SCHEDULE F - PREFERENTIAL CREDITORS (OTHER THAN THOSE DETAILED IN SCHEDULE E)		
Name and address of preferential creditor	Description of amount owing	Amount owing
Loans under Syndicated Facility Agreement		\$ 779,830,055
Bills of Exchange		27,500,000
		807,330,055

2 Continued...Assets and liabilities

SCHEDULE G - PARTLY SECURED CREDITORS

Name and address of creditor	Particulars of security held	Name of security	Estimated value of security	Amount owing to creditor	Amount estimated to rank as unsecured
Nil			\$	\$	\$

SCHEDULE H - UNSECURED CREDITORS

Name and address of creditor	Amount claimed by creditor	Amount admitted as owing	Reasons for difference between amount claimed and admitted (if any)
	\$	\$	
Trade Creditors & Accruals	391,013,018	391,013,018	
Provisions	47,829,751	47,829,751	
Tax Liabilities	121,948,527	121,948,527	
Other Liabilities	1,655,484	1,655,484	
	562,446,780	562,446,780	

SCHEDULE I - CONTINGENT ASSETS

Description of asset	Gross asset	Estimated to produce
Escrow Account	£50,000,000	\$83,333,333 (converted at FX rate 0.6)

SCHEDULE J - CONTINGENT LIABILITIES

Name and address of creditor	Nature of liability	Gross liability	Estimated rank for
		\$	\$
Shareholder Class Action	Damages Claim	32,500,000	32,500,000

3 Annexure

For the purposes of the statement in Form 507A only.

* Strike out whichever is
inapplicable

This is the annexure of 1 pages marked "A" referred to in the Statement verifying report signed by me*/us* and dated as follows.

Date of the Statement verifying report

/ /

Each signatory must complete and
sign a copy of **Form 507A**
Statement verifying report
under s475(1) to be lodged with
Form 507

Name

Signature

Name

Signature

Name

Signature

Declaration

I declare that the particulars contained in the above report as to affairs are true to the best of my knowledge and belief.

Name KIRSTEN MORRISON

Capacity COMPANY SECRETARY

Signature



Date signed

// 24th October 2017

Lodgement

Send completed and signed forms to:
Australian Securities and Investments Commission,
PO Box 4000, Gippsland Mail Centre VIC 3841

Or lodge the form online by visiting the ASIC website
www.asic.gov.au

For more information

Web www.asic.gov.au
Need help? www.asic.gov.au/question
Telephone 1300 300 630

ANNEXURE A1 - ASSETS SUBJECT TO SPECIFIC SECURITY INTERESTS (FINANCING LEASES)

Company Name: Slater and Gordon Limited

ACN: 097 297 400

Description of asset	Date security interest given	Description of security interest	Holder of security interest	Terms of repayment	Valuation	Estimated realisable value	Amount owing under security interest
Office Fitout	Jan 2010	N/A	Westpac	120 months	N/A	1,052,223	1,493,519
Office Fitout	April 2015	N/A	Westpac	42 months	N/A	71,146	73,829
Office Fitout	May 2015	N/A	Westpac	53 months	N/A	253,132	274,932
Office Fitout	May 2015	N/A	Westpac	32 months	N/A	77,344	18,688
Office Fitout	June 2015	N/A	Westpac	60 months	N/A	275,057	366,173
Office Fitout	June 2015	N/A	Westpac	60 months	N/A	548,379	581,361
Office Fitout	June 2015	N/A	Westpac	60 months	N/A	215,554	233,609
Office Fitout	Aug 2015	N/A	Westpac	56 months	N/A	305,695	311,430
Office Fitout	Sep 2015	N/A	Westpac	60 months	N/A	487,471	521,306
Office Fitout	Feb 2016	N/A	Westpac	60 months	N/A	767,801	794,565
Office Fitout	July 2015	N/A	Westpac	30 months	N/A	Nil	8,238
Total						4,053,802	4,677,650

This is Annexure A1 of 1 page referred to in Form 507 Report as to Affairs.

Signed:



Date:

24th October 2017

ANNEXURE A2 - ASSETS SUBJECT TO SPECIFIC SECURITY INTERESTS ON PPSR

Description of asset	Date security interest given	Description of security interest	Holder of security interest	Terms of repayment	Valuation	Estimated realisable value	Amount owing under security interest ¹
PPSR		PPSR Registration					
Other goods - computer software and hardware	30-Jan-12	201112212369718	Capital Finance Australia Limited	N/A	N/A	N/A	Nil
Other goods - furniture and fittings	30-Jan-12	201112212370902	Capital Finance Australia Limited	N/A	N/A	N/A	Nil
Other goods - furniture and fittings	30-Jan-12	201112212371257	Capital Finance Australia Limited	N/A	N/A	N/A	Nil
Other goods - computer software and hardware	30-Jan-12	201112212372618	Capital Finance Australia Limited	N/A	N/A	N/A	Nil
Other goods - computer software and hardware	30-Jan-12	201112212373792	Capital Finance Australia Limited	N/A	N/A	N/A	Nil
Other goods - furniture and fittings	30-Jan-12	201112212381928	Capital Finance Australia Limited	N/A	N/A	N/A	Nil
Other goods - furniture and fittings	30-Jan-12	201112212383167	Capital Finance Australia Limited	N/A	N/A	N/A	Nil
Other goods - computer software and hardware	30-Jan-12	201112212384055	Capital Finance Australia Limited	N/A	N/A	N/A	Nil
Other goods - furniture and fittings	30-Jan-12	201112212384659	Capital Finance Australia Limited	N/A	N/A	N/A	Nil
Other goods - furniture and fittings	30-Jan-12	201112212384797	Capital Finance Australia Limited	N/A	N/A	N/A	Nil
Other goods - furniture and fittings	30-Jan-12	201112212384830	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - computer software and hardware	30-Jan-12	201112212385028	Capital Finance Australia Limited	N/A	N/A	N/A	Nil
Other goods - computer software and hardware	30-Jan-12	201112212385555	Capital Finance Australia Limited	N/A	N/A	N/A	Nil

¹ The Company has no particulars of amounts owing under the PPSR security interests listed in this Annexure A2.

Description of asset	Date security interest given	Description of security interest	Holder of security interest	Terms of repayment	Valuation	Estimated realisable value	Amount owing under security interest ¹
Other goods - computer software and hardware	30-Jan-12	201112212387065	Capital Finance Australia Limited	N/A	N/A	N/A	Nil
Other goods - furniture and fittings	30-Jan-12	201112212387201	Capital Finance Australia Limited	N/A	N/A	N/A	Nil
Other goods - furniture and fittings	30-Jan-12	201112212387666	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - furniture and fittings	30-Jan-12	201112212389132	Capital Finance Australia Limited	N/A	N/A	N/A	Nil
Other goods - furniture and fittings	30-Jan-12	201112212433694	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - furniture and fittings	30-Jan-12	201112212479319	Capital Finance Australia Limited	N/A	N/A	N/A	Nil
Other goods - computer software and hardware	30-Jan-12	201112212488954	Capital Finance Australia Limited	N/A	N/A	N/A	Nil
Other goods - computer software and hardware	30-Jan-12	201112212690523	Capital Finance Australia Limited	N/A	N/A	N/A	Nil
Other goods - furniture and fittings	30-Jan-12	201112212777023	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - furniture and fittings	30-Jan-12	201112212777121	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - computer software and hardware	30-Jan-12	201112212803535	Capital Finance Australia Limited	N/A	N/A	N/A	Nil
Other goods - computer software and hardware	30-Jan-12	201112212804446	Capital Finance Australia Limited	N/A	N/A	N/A	Nil
Other goods - furniture and fittings	30-Jan-12	201112212804962	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - computer software and hardware	30-Jan-12	201112212879164	Capital Finance Australia Limited	N/A	N/A	N/A	Nil

Description of asset	Date security interest given	Description of security interest	Holder of security interest	Terms of repayment	Valuation	Estimated realisable value	Amount owing under security interest ¹
Other goods - office fitout	30-Jan-12	201112230823615	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Motor vehicle	30-Jan-12	201112290260199	Macquarie Leasing Pty Limited	N/A	N/A	N/A	Nil
Other goods - office fitout	30-Jan-12	201201120503506	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - computer software and hardware	30-Jan-12	201201300148856	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - furniture and fittings	30-Jan-12	201201300255501	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - computer software and hardware	13-Feb-12	201202130008707	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - computer software and hardware	24-Mar-12	201203240003870	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Financial property – Investment instrument	30-Apr-12	201204300071249	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - furniture and fittings	26-May-12	201205260002548	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - furniture and fittings	09-Jun-12	201206090002521	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - furniture and fittings	21-Jul-12	201207210002043	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - computer software and hardware	15-Sep-12	201209150002501	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil

Description of asset	Date security interest given	Description of security interest	Holder of security interest	Terms of repayment	Valuation	Estimated realisable value	Amount owing under security interest ¹
Other goods - computer software and hardware	11-Oct-12	201210110001147	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - furniture and fittings	23-Nov-12	201211230002661	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - computer software and hardware	29-Nov-12	201211290004310	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods	27-Feb-13	201302270107243	DATA#3 Limited	N/A	N/A	N/A	Nil
Other goods - computer software	28-Feb-13	201302280009028	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - computer software and hardware	02-May-13	201305020002705	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - computer software and hardware	18-Jul-13	201307180003804	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - computer software and hardware	28-Aug-13	201308280002007	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - computer software and hardware	25-Oct-13	201310250001897	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - computer software and hardware	03-Dec-13	201312030002448	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - computer software and hardware	25-Jan-14	201401250043271	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - furniture and fittings	20-Mar-14	201403200003145	Capital Finance Australia Limited	N/A	N/A	N/A	Nil
Other goods - computer software and hardware	02-Apr-14	201404020003583	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil

Description of asset	Date security interest given	Description of security interest	Holder of security interest	Terms of repayment	Valuation	Estimated realisable value	Amount owing under security interest ¹
Other goods - computer software and hardware	25-Apr-14	201404250004833	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - computer software and hardware	25-Jun-14	201406250004377	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - computer software and hardware	13-Sep-14	201409130001907	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - computer software and hardware	08-Oct-14	201410080003037	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - computer software and hardware	22-Oct-14	201410220002322	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods	17-Dec-14	201412170047341	Staples Australia Pty Limited	N/A	N/A	N/A	Nil
Other goods - computer equipment	12-Jan-15	201501120018266	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - various computer equipment	28-Jan-15	201501280014084	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - Sharp Copiers	20-Feb-15	201502200050934	Print Management Facilities Australia Pty Ltd	N/A	N/A	N/A	Nil
Other goods - various computer equipment	24-Feb-15	201502240042890	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - computer equipment	05-Mar-15	201503050027897	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - office fitout	15-Apr-15	201504150027237	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - office fitouts	15-Apr-15	201504150044132	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil

Description of asset	Date security interest given	Description of security interest	Holder of security interest	Terms of repayment	Valuation	Estimated realisable value	Amount owing under security interest ¹
Other goods - computer equipment	21-Apr-15	201504210032405	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - IT equipment	28-Apr-15	201504280039986	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - office fitouts	06-May-15	201505060010407	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - office furniture and fitouts	18-May-15	201505180013978	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - office furniture and fitouts	18-May-15	201505180014075	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - Oki & Kyocera Copier	02-Jun-15	201506020027475	Print Management Facilities Australia Pty Ltd	N/A	N/A	N/A	Nil
Other goods - fit out	10-Jun-15	201506100010620	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - computer equipment	10-Jun-15	201506100010683	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - office furniture and fitouts	10-Jun-15	201506100013475	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - office fitouts	12-Jun-15	201506120070031	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - computer equipment	18-Jun-15	201506180054210	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - office fitout	29-Jun-15	201506290035375	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil

Description of asset	Date security interest given	Description of security interest	Holder of security interest	Terms of repayment	Valuation	Estimated realisable value	Amount owing under security interest ¹
Other goods - office fitouts	29-Jun-15	201506290045528	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - IT equipment	28-Jul-15	201507280041326	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - IT equipment	31-Aug-15	201508310067094	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - office fitout	07-Sep-15	201509070055362	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - IT equipment	23-Sep-15	201509230038685	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - various computer equipment	22-Oct-15	201510220037573	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - computer equipment	11-Dec-15	201512110071324	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - office fitout	29-Dec-15	201512290006833	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - various computer equipment	12-Feb-16	201602120025108	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - various computer equipment	04-May-16	201605040049440	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - various computer equipment	30-May-16	201605300037724	Global Loan Agency Services Australia Nominees Pty Limited	N/A	N/A	N/A	Nil
Other goods - Cisco networking equipment and other related equipment	01-Aug-16	201608010082958	Cisco Systems Capital (Australia) Pty Limited	N/A	N/A	N/A	Nil

Description of asset	Date security interest given	Description of security interest	Holder of security interest	Terms of repayment	Valuation	Estimated realisable value	Amount owing under security interest ¹
Other goods - Cisco networking equipment and other related equipment	01-Aug-16	201608010086611	Cisco Systems Capital (Australia) Pty Limited	N/A	N/A	N/A	Nil

This is Annexure A2 of 8 pages referred to in Form 507 Report as to Affairs.

Signed: 

Date: 24th October 2017

ANNEXURE G - SENIOR LENDERS AND DEBT AMOUNTS

The Senior Lenders as at 30 June 2017 are set out below:

1.1 Paragraph 8201(c) – All known scheme creditors and the debts owed to those scheme creditors by the Scheme Company

The Senior Lenders are the only scheme creditors of the Scheme Company.

The amounts below constitute the Secured Debt owing as at 30 June 2017 to the Senior Lenders.

Senior Lenders	Debt owing (AUD)	Debt owing (GBP)
Anchorage	14,714,948	243,187,041
TCA Opportunity Investments S.A.R.L.	4,206,946	39,547,166
York Global Finance BDH, LLC	3,853,437	37,122,469
Bank of America, N.A.	14,069,342	21,058,359
Perpetual Corporate Trust Limited as Custodian for Metrics Credit Partners Diversified Australian Senior Loan Fund	41,514,858	-
Burlington Loan Management DAC	6,730,732	17,470,166
River Birch Master Fund, L.P.	2,857,766	17,818,785
Deutsche Bank AG, London Branch	15,568,072	-
Värde Investment Partners, L.P.	7,271,051	3,575,491
PA View Opportunity IV Limited	5,311,574	-
ARCM Master Fund III Ltd	2,124,630	-
FCCD (Australia) Pty Limited	1,003,101	-

Any accrued but unpaid interest after 30 June 2017 is not included in the above amounts.

1.2 Paragraph 8201(d) – All scheme creditors known to be guaranteed creditors.

The known Senior Lenders listed above are known to be guaranteed creditors. The details of these debts are listed in part 1.1 above.

1.3 Paragraph 8201(e) – All scheme creditors known to be internal creditors.

There are no Scheme Senior Lenders known to be internal creditors of the Scheme Company.

ANNEXURE H - SCHEME ADMINISTRATOR FEES

KordaMentha rates

National

Applicable from 1 July 2017

FY 2018

Classification	\$ per hour*
Principal Appointee/Partner/Executive Director	675
Director	625
Associate Director 1	575
Associate Director 2	525
Manager	475
Senior Executive Analyst	425
Executive Analyst	400
Senior Business Analyst	350
Business Analyst	295
Administration	150

*Exclusive of GST

KordaMentha disbursement policy

Disbursements incurred from third party suppliers are charged at the cost invoiced. KordaMentha does not add any margin to disbursements incurred through third parties.

There are no charges for internal KordaMentha disbursements, such as internal photocopy use, telephone calls or facsimiles, except for bulk printing and postage that is performed internally, which are calculated on a variable cost recovery basis.

In relation to any employee allowances, being kilometre allowance and reasonable travel allowance, the rate of the allowance set by KordaMentha is at or below the rate set by the Australian Taxation Office.

If a KordaMentha data room is utilised, the fee will comprise an initial setup fee and then a fee based on the duration and size of the data room.

Certain services provided by Forensic Technology may require the processing of electronically stored information into specialist review platforms. Where these specific Forensic Technology resources are utilised, the fee will be based on units (e.g. number of laptops), size (e.g. per gigabyte) and/or period of time (e.g. period of hosting).

GST is applied to disbursements as required by law.

KordaMentha disbursement internal rates and allowances

Description	Charge*
Photocopying, printing (general)	\$0.06 per page
Envelopes and postage (varies due to size and weight)	\$1.45 to \$2.40 per envelope
Travel Reimbursement	\$0.60 per kilometre
Meal per diem, etc.	Up to \$92.70 per day per staff member (unless other arrangements made)
Dataroom fee (varies based on MB size)	See detail below

*Exclusive of GST, reviewed annually on 1 July

Dataroom fee – Size (MB)	Charge per month*
0–300	\$1,000
300–1000	\$1,000 + \$2.50/MB
1000–5000	\$2,750 + \$1.25/MB
5000+	\$7,750 + \$0.60/MB

*Exclusive of GST, reviewed annually on 1 July

KordaMentha classifications

Classification	Guide to level of experience
Principal Appointee/Partner/ Executive Director	Registered/Official Liquidator/Trustee, his or her Partners. Specialist skills brought to the administration. Generally in excess of 10 years' experience.
Director	More than eight years' experience and more than three years as a Manager. Answerable to the appointee, but otherwise responsible for all aspects of an administration. Controls staffing and their training.
Associate Director 1	Six to eight years' experience with well developed technical and commercial skills. Will have conduct of minor administrations and experience in control of a small to medium team of staff. Assists with the planning and control of medium to large administrations.
Associate Director 2	Five to seven years' experience with well developed technical and commercial skills. Will have conduct of minor administrations and experience in control of a small to medium team of staff. Assists with the planning and control of medium to large administrations.
Manager	Four to six years' experience. Will have had conduct of minor administrations and experience in control of one to three staff. Assists with the planning control of medium to large administrations.
Senior Executive Analyst	Three to four years' experience. Assists planning and control of small to medium administrations as well as performing some of the more difficult tasks on larger administrations.
Executive Analyst	Two to three years' experience. Required to control the tasks on small administrations and is responsible for assisting tasks on medium to large administrations.
Senior Business Analyst	Graduate with one to two years' experience. Required to assist in day-to-day tasks under supervision of more senior staff.
Business Analyst	Undergraduate or graduate with up to one year experience. Required to assist in day-to-day tasks under supervision of more senior staff.
Administration	Appropriate skills, including books and records management and accounts processing particular to the administration.

ANNEXURE I - VOTING PROOF OF DEBT FORM

Voting Proof of Debt Form

Form 535

(as modified and adopted for the Scheme)

(subregulation 5.6.49(2) Corporations Regulations)

ACN or ARBN: _____

FORMAL PROOF OF DEBT OR CLAIM (GENERAL FORM)

Capitalised terms in this Proof of Debt Form that are not otherwise defined have the same meaning as is given to those terms in the Explanatory Statement.

TO: the Chairperson of the Scheme Meeting to consider the creditors' scheme of arrangement for Slater & Gordon Ltd ACN 097 297 400 (**Company**).

- 1 This is to state that _____ was, on the Voting Entitlement Record Date, justly and truly indebted to¹² _____ for _____ dollars and _____ cents.

Particulars of debt are:

Date	Consideration ¹³	Amount	Remarks

- 2 To my knowledge or belief the creditor has not, nor has any person by the creditor's order, had or received any manner of satisfaction or security for the sum of any part of it except for the following:¹⁴

Date	Drawer	Acceptor	Amount	Due Date

- 3 I am employed by the creditor and authorised in writing by the creditor to make this statement. I know that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, still remains unpaid and unsatisfied.¹⁵
- 4 I am the creditor's agent authorised in writing to make this statement in writing. I know that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, still remains unpaid and unsatisfied.¹⁶

Dated this day _____ of _____ 2017.

¹² Insert full name and address (including ABN) of the creditor and, if applicable, the creditor's partners. If prepared by an employee or agent of the creditor, also insert a description of the occupation of the creditor.

¹³ State how the debt arose, for example, "moneys advanced in respect of the Syndicated Facility Agreement"

¹⁴ Insert particulars of all securities held. Where the securities are on the property of the Company, assess the value of those securities.

¹⁵ **Do not complete** if this proof is made by the creditor personally.

¹⁶ **Do not complete** if this proof is made by the creditor personally.

If executing as an individual:

SIGNED by
in the presence of

.....
Signature of witness

.....
Signature of creditor

.....
Name of witness (print)

If executing as a company:

EXECUTED by
In accordance with Section 127 of the
Corporations Act 2001

.....
Signature of director

.....
Signature of director / company secretary
(delete as applicable)

.....
Name of director (print)

.....
Name of director / company secretary (print)

If executing under a power of attorney:

SIGNED by
as attorney for
under a power of attorney dated
in the presence of:

.....
Signature of witness

.....
Signature of attorney

.....
Name of witness(print)

.....
Name of attorney (print)

Directions

This form must be lodged with the Chairperson by 26 November 2017 at 9.00 am (Melbourne time) at the following address:

Attention: Kirsten Morrison
General Counsel and Company Secretary
485 La Trobe Street
Melbourne, Victoria, 3000

OR

by fax to + (03) 9600 0290

OR

by email to the following address
Company.Secretary@slatergordon.com.au

Annexures

- A. If space provided for a particular purpose in a form is insufficient to contain all the required information in relation to a particular item, the information must be set out in an annexure.
- B. An annexure to a form must:
- (a) have an identifying mark;
 - (b) be endorsed with the words:
"This is the annexure of *(insert number of pages)* pages marked *(insert an identifying mark)* referred to in the *(insert description of form)* signed by me/us and dated *(insert date of signing)*; and
 - (c) be signed by each person signing the form to which the document is annexed.
- C. The pages in an annexure must be numbered consecutively.
- D. If a form has a document annexed the following particulars of the annexure must be written on the form:
- (a) the identifying mark; and
 - (b) the number of pages.

OFFICE USE ONLY

POD No:		ADMIT - Ordinary	\$
Date Received:	/ /	ADMIT - Preferential	\$
Entered into IPS/Computer:		Reject	\$
Amount per RATA	\$	H/Over for Consideration	\$
PREP BY/AUTHORISED		TOTAL PROOF	\$
DATE AUTHORISED / /			

ANNEXURE J - SUMMARY OF RESTRUCTURING SUPPORT DEED

Extract from ASX announcement dated 31 August 2017

Term	Summary
Conditions Precedent	The recapitalisation is conditional upon the satisfaction or waiver (if applicable) of certain conditions precedent, including: • (FIRB Approval) the Treasurer of the Commonwealth has provided written advice or confirmation to the effect there are no objections under the <i>Foreign Acquisitions and Takeovers Act 1975</i> (Cth) to the recapitalisation, or is otherwise precluded from making an order in respect of the recapitalisation; • (Shareholder Meeting) Shareholders of the Company approving the required resolutions at the general meeting by the requisite majorities (if required); • (Scheme Meeting) the Senior Lender Scheme and Shareholder Creditor Scheme is approved at the scheme meetings by the requisite majorities of the respective creditors; • (Court Approvals) Court approval of the Senior Lender Scheme, the Shareholder Creditor Scheme and the proposed settlement of the Hall Proceeding; • (Regulatory Approvals) the Company obtaining all other relevant regulatory approvals, consents or waivers, including from ASX and ASIC; • (Separation arrangements) each party to a 'Business Separation and Transitional Arrangements Agreement' (or similar document) in respect of the separation of the S&G Group's Australian and UK operations (in a form to be agreed between the Company and the Senior Lenders) has duly executed their counterpart, each of which is to be held in escrow and released in accordance with the terms of the Senior Lender Scheme; • (litigation proceeds) the Company has received cash proceeds in relation to project litigation matters substantially in accordance with budgeted quantum and timing in the period between the date of the RSD and the Scheme Meeting for the Senior Lender Scheme; • (Material Contracts) the Company has obtained the consent from each person who is entitled to exercise any right under any provision of any material contract that entitles the person to terminate or modify the contract as a result of the recapitalisation and in respect of which the Majority Supporting Lenders require the Company to seek such consent; • (Deed Poll) deeds poll entered into by certain third parties continue to benefit the beneficiaries named in those deeds poll, and those deeds poll have not been terminated; • (tax) without waiving any privilege which the Company may claim, the Company has received a tax opinion from PricewaterhouseCoopers. The condition will be satisfied upon written notice from the Supporting Lenders that the tax opinion received by the Company is reasonably acceptable to the Supporting Lenders; • (No Restraints) no legal or regulatory restraint that prohibits, materially restricts, makes illegal or restrains the implementation of the Senior Lender Scheme; and • (Authorisations) all material authorisations required to complete the

Term	Summary
	recapitalisation have been granted or obtained and have not been withdrawn, cancelled or revoked. Each party must use its respective reasonable endeavours to procure that each of the conditions precedent is satisfied as soon as reasonably practicable. The Company or the Majority Supporting Lenders may, if any other condition precedent is not satisfied or waived, or becomes incapable of satisfaction, by 31 December 2017, terminate the RSD if the parties are not able to reach agreement on how to proceed with the recapitalisation following a period of consultation.
Implementation of Restructure and Timetable	The parties agree to undertake the recapitalisation on, and subject to the terms of, the RSD, and to use all reasonable endeavours to do so in accordance with the Timetable (as set out below). The parties will use all reasonable endeavours to agree definitive transaction documents to give effect to the recapitalisation and consult reasonably to agree any changes to the Timetable which may be necessary or desirable.
Conduct of the Company Business	During the period from the date of the RSD up to and including the earlier of the termination of the RSD and implementation of the recapitalisation, the Company must: • procure that the S+G Group conducts its business and operations in the ordinary course and substantially consistent with the manner in which each such business and operation has been conducted in the 12 months immediately prior to entry into the RSD; and • use its reasonable endeavours to preserve intact the S+G Group's current business organisation, except to the extent required to be done or procured by the Company pursuant to, or that is otherwise expressly permitted by, the scheme documents, or the undertaking of which the Majority Supporting Lenders have approved in writing.
Transfer Restrictions	Following implementation, the respective equity and debt instruments within Australia and the UK are proposed to be subject to transfer restrictions within each of those jurisdictions requiring the Senior Lenders to collectively retain ownership of the equity and debt facilities until: (a) for the Australian equity and debt instruments, the release of the Company's FY19 half year results, except that the transfer restrictions relating to the equity will apply to Anchorage until the release of the Company's FY19 full year results; and (b) for the UK equity and debt instruments, 28 February 2019, except that the transfer restrictions relating to the equity will apply to Anchorage until 31 August 2019.
Governance	Following the recapitalisation, the Company's board will comprise 7 directors. Anchorage will be entitled to nominate 4 non-executive directors, other members of the Majority Supporting Lenders (excluding Anchorage) will be entitled to nominate 2 non-executive directors, and the Majority Supporting Lenders together (including Anchorage) will be entitled to nominate the other director. The Senior Lenders will implement separate governance arrangements for the UK business following implementation.

Term	Summary
Management Incentive Plan	A new management incentive plan in respect of the Australian business (on terms to be developed) with the intention that it will allow for the economic equivalent of 10% of the Company's fully diluted share capital to be available to beneficiaries of the plan over time. The proposed beneficiaries are employees of the Company and its various subsidiaries who contribute to its future success. The Company and each of its subsidiaries has committed to not exercise any board discretion to vest any incentive rights or options granted to directors, management or senior executives in anticipation of any potential change of control pursuant to the recapitalisation. The Senior Lenders will implement separate management incentive arrangements for the UK business following implementation.
Exclusivity	Exclusivity Provisions: The Company is required to comply with certain exclusivity obligations under the RSD, which include: • Termination of existing discussions: the Company must cease any discussions with any third party in relation to a Competing Proposal and must cease the provision of any due diligence access and the making of any non-public information in relation to the S+G Group to any third party, where the purpose was for a potential Competing Proposal. The Company must require any third party to whom non-public information has been provided or made available to immediately return or destroy that non-public information, where the purpose was for a potential Competing Proposal. • No shop restriction: the Company must not directly or indirectly solicit, initiate or invite enquiries, discussions, negotiations or proposals in relation to, or which may reasonably be expected to lead to, a Competing Proposal, or communicate to any person any intention to do any of the above things. • No talk restriction: subject to the fiduciary exception (summarised below), the Company must not: (a). directly or indirectly enter into, continue or participate in any discussions or negotiations in relation to, or which may reasonably be expected to lead to, a Competing Proposal; (b). disclose any non-public information about the business or affairs of the Company to a third party with a view to obtaining, or which may reasonably be expected to lead to, receipt of a Competing Proposal, other than in the ordinary course of business or as required by law; (c). accept, enter into or offer to accept or enter into any agreement, arrangement or understanding in relation to an offer or proposal from any third party in relation to a Competing Proposal; or (d). communicate to any person any intention to do any of the things referred to in the clauses (a), (b) or (c) above.

Term	Summary

- **No due diligence:** subject to the fiduciary exception (summarised below), the Company must not:
 - (a). solicit, initiate, facilitate or encourage any party (other than the New Lenders or their representatives) to undertake due diligence on the Company or any S+G Group Member; or
 - (b). make available to any other person (other than the New Lenders or their representatives) or permit such person to receive any non-public information relating to the Company or any S+G Group Member.
- **Notification obligation:** subject to the fiduciary exception (summarised below), the Company must notify the Supporting Lenders within 1 business day if the Company is approached about a Competing Proposal, or if the Company provides or intends to provide any material non-public information to a third party to enable that third party to make a Competing Proposal.

Exclusivity (cont.)

Fiduciary Exception:

In respect of a bona fide Competing Proposal that is or may be received by, or become known to, the Company without any breach by the Company of its obligations under the exclusivity provisions, the Company may undertake any action (a “prohibited action”) that would otherwise be prohibited by the ‘no talk’ restriction or the ‘no due diligence restriction’ or refrain from giving notice under the ‘notification obligation’, if (and only to the extent that) the Company board determines, acting in good faith and after obtaining legal advice, that not undertaking the prohibited action, or undertaking the required action, would be likely to result in a breach by a Company director of his or her fiduciary or statutory duties.

Definitions of Competing Proposal and Superior Proposal:

A ‘Competing Proposal’ under the RSD means any proposed or potential dissolution, winding up, liquidation, reorganisation, assignment for the benefit of creditors, consolidation, restructuring of the Company, financing (debt or equity), refinancing, transaction or arrangement (including any takeover bid, scheme of arrangement, share and/or asset sale, capital reduction, buy back, joint venture or dual listed company structure, recapitalisation, establishment of a new holding company for the S+G Group or other synthetic merger, or any other means) under which a third party would, if completed:

- (a). directly or indirectly acquire an interest (including an economic interest by way of an equity swap, contract for difference or similar transaction or arrangement) or a relevant interest in:
 - (i). 20% or more of the Company’s shares; or
 - (ii). 20% or more of the share capital of any other material S+G Group Member;
- (b). directly or indirectly acquire, become the holder of or have a right to acquire or an economic interest in all or a substantial part of the business, or any of the material assets, of the S+G Group (where a substantial part of the business or a material asset of the S+G Group will include rights in respect of assets representing 20% or more of the value of the S+G Group’s total assets); or
- (c). otherwise acquiring control of or merging or amalgamating with the Company whether by way of takeover bid, scheme of arrangement, share and/or asset sale, capital reduction, buy back, joint venture or dual listed company structure, recapitalisation, establishment of a

Term	Summary
	new holding company for the S+G Group or other synthetic merger, or any other means. A 'Superior Proposal' under the RSD means a bona fide Competing Proposal that the Company board determines, acting in good faith and after taking written advice from the Company's legal and financial advisers: (a). is reasonably capable of being implemented within six months, taking into account all aspects of the Competing Proposal, including the identity, reputation and financial standing of its proponent(s), conditionality, structure and financing, as well as the current contractual rights of the Supporting Lenders under the finance documents); and (b). would, if completed substantially in accordance with its terms, produce an outcome for both the Company's shareholders and the Senior Lenders (as a whole) that is superior to the outcome that would be produced by the creditors' scheme.
Matching Right	The RSD requires that the Company must not enter into any agreement or arrangement in relation to or in connection with the implementation of a Competing Proposal (a "Rival Proposal") unless: (a). the Rival Proposal is a Superior Proposal; (b). the Company has given the Supporting Lenders written notice ('Matching Right Notice') of the identity of the third party, consideration, timing, conditions, structure and other key terms of the Rival Proposal; and (c). the Majority Supporting Lenders do not, within 5 business days after receiving the Matching Right Notice, make a written proposal ("Supporting Lender Proposal") to the Company in respect of an improvement to the scheme consideration or an alternative transaction or arrangement that the Company board determines, acting in good faith, would result in an outcome more favourable or no less favourable for both the Company shareholders and the New Lenders (as a whole) as would result from the Rival Proposal (assuming that both the Supporting Lender Proposal and Rival Proposal would be implemented in accordance with their terms). The Company must ensure that, as soon as practicable after: (a). receipt of a Supporting Lender Proposal, the Company board considers whether the Matching Right Determination can be made; and (b). the Company board has considered this matter, the Supporting Lenders are notified of the Company board's decision in writing. If the Company board makes the Matching Right Determination, the Supporting Lenders and the Company must use reasonable endeavours to promptly agree such matters, and take such other steps, as are reasonably necessary to give effect to the Supporting Lender Proposal (including entering into an amending deed in respect of amendments to this deed).

Term	Summary
Termination	The RSD contains customary termination rights, including: • Termination by any party: (a). if a condition precedent is not satisfied or waived, or becomes incapable of satisfaction by the relevant end date for that condition; or (b). if the creditors' scheme of arrangement has not been completed in accordance with the terms of the RSD by 31 December 2017 or becomes incapable for any reason of being completed by 31 December 2017. • Termination by Majority Supporting Lenders: (a). if the Company breaches, or is in breach of, the RSD in any material respect; (b). any Company director publicly withdraws or adversely changes his or her recommendation or voting intention in any circumstances; (c). in any circumstances, the Company enters, or purports to enter, into any agreement or arrangement in relation to the implementation of a Competing Proposal; or (d). if the Company suffers an insolvency event.
Debt Standstill	From the date of the RSD until the earlier of implementation of the Senior Lenders Scheme, termination of the RSD and 31 December 2017, each Supporting Lender agrees to: • not commence or continue and not instruct the security trustee or the agent (as applicable) to commence or continue any legal action or other proceedings against any S+G Group Member or any security property (including any rights arising from an event of default occurring or subsisting) (and must vote against any proposal or resolution to do the same); • not exercise and not direct the security trustee or the agent (as applicable) to exercise, and instruct the security trustee or the agent (as applicable) to desist from exercising, any rights under the finance documents or otherwise (and must vote against any proposal to do the same), other than as contemplated in this deed; • not take any steps to enforce or make any demand under any guarantee, transaction security or other right of recourse held by or for the benefit of the lenders (and must vote against any proposal or resolution to do the same); and • not take and not instruct the security trustee or the agent (as applicable) to take any steps (directly or indirectly), to wind up or appoint a liquidator, administrator, receiver or receiver and manager or analogous officer over, or commence any other insolvency related or attachment proceedings against any S+G Group Member or against any security property or take any steps to enforce payment or discharge of any money owing (other than as contemplated by this deed).